COMPETITIVE CONDITIONS IN THE U.S. CIVIL AIRCRAFT INDUSTRY AND FOREST PRODUCTS INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

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COMPETITIVE CONDITIONS IN THE U.S. CIVIL AIRCRAFT INDUSTRY AND FOREST PRODUCTS INDUSTRY

MONDAY, JULY 9, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Seattle, WA.

The subcommittee met at 9:30 a.m., pursuant to notice, in South Auditorium, Jackson Federal Building, Seattle, WA, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Monday, June 25, 1984]

Hon. Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces a Field Hearing in Seattle, WA, on July 9, 1984, on Competitive Conditions in the U.S. Civil Aircraft Industry and Forest Products Industry

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced plans for a field hearing in Seattle, Washington, on Monday, July 9, 1984, to review recent developments in international trade affecting the Pacific Northwest. In particular, the Subcommittee wants to explore several factors affecting conditions of competition in two major sections of vital interest to the region: the civil aircraft and forest products industries. The hearing will begin at 9:30 a.m. in the South Auditorium of the Jackson Federal Building, 915 Second Avenue, Seattle, Washington. The Subcommittee will hear from representatives of these industries as well as other public witnesses from the Pacific Northwest involved in various aspects of international trade. The Members will also tour the manufacturing facility of the Boeing Commercial Aircraft Company in Everett, Washington, and the logging and sawmill facilities of the Weyerhaeuser Company in Snoqualmie, Washington.

In announcing the hearing, Chairman Gibbons noted that:

"There are a number of outstanding trade issues of interest to the Pacific Northwest that are deserving of the close scrutiny of this Subcommittee. The issues of export competitiveness, export financing, and access to foreign markets in the aerospace and forest products industries are of particular importance to the economy of this region and to the Nation. In addition, these industries and others in the region are heavily involved in commerce with the Pacific Rim countries and are uniquely affected by tariff and nontariff trade barriers to their exports. Finally, there are many developments in U.S. trade with Canada which are of interest to the region."

Testimony will be received from invited witnesses only. All other interested parties wishing to submit statements are encouraged to do so. Persons submitting a written statement should submit at least six (6) copies of their statement by close of business Tuesday, July 31, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102, Longworth House Office Building, Washington D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 50 additional copies for this purpose to the hearing room in Seattle.

Chairman GIBBONS. Good morning, ladies and gentlemen.

On behalf of the Subcommittee on Trade of the Ways and Means Committee, I want to thank all of you for joining us today for this important hearing on the subject of international trade as it affects the Pacific Northwest.

These oversight hearings are particularly important and timely because of the number of unresolved trade problems that are now plaguing this Nation and the Northwest. We want to examine these problems today, to explore the many reasons behind the success of this region in its quest for international trade, and as a major contributor to our exports of this country.

The Pacific Northwest, like my own home State of Florida, is highly dependent on foreign commerce. The people here have decided long ago that the road to prosperity requires many bridges of cooperation and mutual trust.

The Pactific Northwest is on the cutting edge of trade in the Pacific rim area of the world. An area of the world, by the way, that I think is probably the most important dynamic and growing area that we have.

But many people are unaware that this segment of our economy, for instance, like the aircraft industry and the timber industry, wood products industry located here, are some of our leading export industries.

We are also aware of the impact the fisheries have on this area, and we are also impressed that their area of the world, particularly the Seattle area, is one of the leaders in the international service industry, such as banking and shipping and insurance and architecture and engineering and all those great things that are a part of our renewable resources that make up a large portion of our American exports.

In all, the Pacific Northwest has a great stake in the world trading system and it is, therefore, fitting at this time, when our Nation is experiencing its most serious strains in trade and trade policy, that we come here to listen and to talk with the people of the northwest area.

Let me thank everyone who is having a part in making our visit here most pleasant, a useful experience. I would like to give special thanks to my colleagues from this State of Washington, particularly—well, I see Mike Lowry here, and Don Chandler. Don Bonker will be here soon, I am sure.

On my right are Don Pease, who is a member of the Ways and Means Committee, from the Lorain, OH, area, and Mr. Gillis Long, who is the chairman of the Trade Subcommittee of the Joint Economic Committee, but even more importantly than that, he is the man second only to Claude Pepper as far as seniority is concerned on the Rules Committee, and is most responsible for controlling the consideration of legislation in the House of Representatives.

We are here on a nonpartisan/bipartisan basis today to listen to people from the region. Our first witness this morning, of course, is Mr. International Trade, himself, the head of the Boeing Co., Mr. T.A. Wilson. Mr. Wilson, we are glad to have you here. Just proceed as you wish.

STATEMENT OF T.A. WILSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, THE BOEING CO., ACCOMPANIED BY DEAN THORNTON, SENIOR VICE PRESIDENT

Mr. **Wilson**. Thank you, Mr. Chairman. I am chairman of the Boeing Co. Once again, I wish to thank you, Mr. Chairman, and Mr. Long, and Mr. Pease, for your interest in how we are doing in the international marketplace for commercial aircraft.

I am joined this morning by Dean Thornton, senior vice president of Boeing Co.

It is my understanding that you have my formal statement, and since it probably tells you more than you really want to know, let me try to boil it down.

Chairman **Gibbons**. All right. We will put the whole statement in the record immediately following your remarks.

Mr. **Wilson**. Thank you, sir.

The commercial airplane business is high risk, and it is a competitive industry.

Twenty-five years ago there were 17 commercial aircraft prime manufacturers. Today there are only five, and only two of us are in the United States—the Boeing Co. and McDonnell Douglas.

Every time we launch a new plane, we bet the company. The reason for that is because the startup costs run into the billions of dollars, and repayment takes a long time, if the program is a success—and some of them are not.

We and McDonnell Douglas finance our commercial research, development, and operational startup with our own retained earnings and funds raised in the private capital market. Our principal overseas' competitor, Airbus Industry, can and does call on the national treasury of the United Kingdom, France, and Germany for funds as needed.

We don't claim it is unfair that Airbus can count on direct government funding while we cannot. It does mean, though, that we must have clear, fair, and enforceable trade rules.

Another important factor in the competitive situation is the financial weakness of so many customer airlines worldwide. This makes financing more critical than ever before.

It also drives the market to innovate new ways to meet the customers' needs. Here again we see the need for rules to be sure that no one gets an unfair leg up on his overseas' competitor.

The rules that came out of the Tokyo round negotiations have given us a reasonably tolerable policy environment. We want that to continue. We want the rules to be improved where possible and updated as necessary to reflect market realities.

The way to achieve this, we believe, is through negotiations among the governments of commercial aircraft producing countries. We don't favor getting out ahead of the international rules through domestic legislation on what is fair or not fair.

We don't think we are soft-headed in favoring this approach. We think it is in our best interests to give the negotiators every opportunity to work out agreements that are fair and reasonable.

We are very much aware, of course, that the market here in the United States is the world's largest by far for commercial aircraft.

Western Europe is an important market for us, too, about 20 percent of the total world market over the next decade.

We will continue to compete aggressively for these markets. We won't sit idly by and watch our markets get gobbled up as a result of accepted international rules being violated or ignored.

We will take steps to neutralize any unfair trading practices including asking for appropriate U.S. Government help.

We think current legislation provides avenues to counter unfair practices in violation of agreed rules. We don't want anyone excluded from competing in the U.S. market.

We just want to ensure that competition is fair and consistent with international rules, and that purchase decisions are made on the basis of price and quality of the product.

Thank you for your attention, gentlemen.

[The prepared statement follows:]

STATEMENT OF T.A. WILSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BOEING CO.

The Boeing Company welcomes the Subcommittee's interest in international competitive conditions affecting civil aircraft.

Copies of our latest Market Outlook are being made available to members of the Subcommittee and staff. Some of the key points affecting the competitive environment can be summarized as follows:

Many carriers worldwide are still financially weak as a result of the effects of the recent worldwide recession.

The situation is particularly acute in most of the non-oil-producing developing countries.

Competition is intense among the five remaining producers of commercial aircraft—two in this country (Boeing and McDonnell Douglas) and three in Western Europe (the Airbus Industrie consortium, British Aerospace, and Fokker).

There are some special characteristics of the commercial aircraft market that make competition intense for practically every sale, even if only one or two aircraft may be involved. One characteristic is this industry lives on reorders. Nearly 90% of Boeing's orders over the past five years were for 5 units or less; 60% were for 2 or less. Initial market penetration is the key to follow-on sales and follow-on sales are indispensible to recover the enormous launch costs of new airplane programs.[1]

The fact that so many customer airlines are financially weak drives the market to create new and more complex ways to finance aircraft. Financing accordingly is often the critical element in head-to-head competition. That is why it is so important to Boeing that the international rules about financing aircraft sales be fair, clear, and respected—or effectively countered if they are not respected.

That last sentence also serves as a good summary of the kind of trade policy environment Boeing favors. We want to see markets worldwide kept open. We want a framework of rules that keep the playing field as level as possible. We favor minimum governmental distortions. In short, we want price and quality to determine sales.

For the past four and one half years—that is since the various agreements negotiated during the Tokyo Round affecting aircraft came into force—we have had a reasonably good policy environment. The International Agreement on Trade in Civil Aircraft and the related Code on Subsidies and Countervailing Duties contain pretty good (but not perfect) policy prescriptions. Enforcement rules, however, are weak or in some respects non-existent.

Export credit rules are part of these two agreements and thus the policies of the Export-Import Bank (as well as the relevant international export credit rules) are of great importance to Boeing.

The Administration's current policy concerning Eximbank is much improved over the situation a few years ago. We were also pleased with the recent amendments to the Bank's charter reinforcing its mandate to be competitive.

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[1] A recent Boeing publication reviews these points in more detail—"Why Each Commercial Airplane Sale is Significant", copies of which are being made available to Subcommittee Members and Staff.

Internationally, the export credit rules appear to be less secure than we would like. Uncertainty about what has been agreed or differences of interpretation about what the agreements mean seem to be cropping up more frequently. Quite recently, Europe has shifted negotiating authority to the Commission of the European Community while heretofore U.S. Government negotiators dealt directly with the three Governments of Airbus countries—the United Kingdom, France, and the Federal Republic of Germany. Frankly, we're not sure what this shift means but it has added another element of uncertainty.

Boeing favors international negotiations to develop reasonable rules among key countries for trade and financing commercial aircraft. This process has worked reasonably well over the years and we should consider carefully whether abandoning that process would produce better results for the country or our industry. We consider it unwise to try to legislate in the United States alone what the rules should be because others can respond with rules that they might consider best for their national interests. How often could we expect rules developed in this way would be identical? Not very often, we're afraid, because rules in this area must accommodate important differences in economic, social, and political structures and different economic aspirations among nations.

When the rules, such as they are, get overtaken by market developments and thus are no longer regarded as relevant or useful to—or respected by—market participants, then negotiations to revise or update the rules are in order. This is the situation we appear to be in with respect to some of the aircraft finance agreements or understandings. Negotiations are expected to resume in the early fall between the U.S. Government and the EC Commission. We want them to be successful and have been doing what we can to equip the U.S. negotiators with the best information we have about market realities affecting our industry.

Finally, Boeing wishes to be clear about what it believes should be done if the rules are violated or ignored: offsetting or defensive steps to neutralize unfair foreign trade practices will be required and appropriate actions by the U.S. Government will almost certainly be needed. We do not consider this is a "protectionist" position but one that is consistent with both international trade policy and practice. Domestic U.S. legislation, we believe, contains adequate avenues to counter unfair practices in violation of agreed rules.

We don't relish getting into a mini-trade war over aircraft and don't really see why it should occur because we think both the U.S. and Europe would lose—and so would the commercial airplane industries on both sides of the Atlantic. Some temporary "winners" might be some carriers who might get some equipment at very low prices as manufacturers here and in Europe try to outbid each other with cutthroat and unprofitable offers. The losers will be the taxpayers in Europe and America standing behind and ultimately paying the bill for uneconomic offers of this kind—unless the U.S. opt out of the competition and turns over the commercial aircraft business or a large share of it to Europe. We don't think the Administration or Congress would do so. At least we hope that is the case.

Lest we be misinterpreted, Boeing wishes to complete this testimony with an affirmation that we have no desire or intent to see Airbus excluded from the U.S market. So far as we are concerned, they are free to compete with Boeing on the basis of price and quality of our respective products. But we do expect, and will insist, that such competition take place in strict conformity with international agreements applicable to trade in civil aircraft.

Chairman GIBBONS. Thank you, Mr. Wilson.

First, I recognize your skill. Obviously, some of the largest exports that the United States makes are in your company, your product. And it takes real skill to compete, not only to build the product, design it, merchandise it—but to compete against largely what are State-controlled, State-operated and State-owned economies, with all of their sophisticated ways of subsidizing their product.

Let me ask you, first of all, in our little discussion here—and I hope we will treat this as a discussion—how have the GATT rules, the GATT code on aircraft parts, affected your industry? What is your observation of them? Are they effective? Are they having any impact?

Mr. WILSON. Well, I think the GATT rules in general have been effective. I am not an expert on the parts as opposed to the finished product. But I have no reason to say that they have not been effective even in the parts situation.

Chairman GIBBONS. It has, though, enabled you to partially internationalize the assembly of the Boeing product here, because you can bring parts in without duty treatment, without duty, as I understand it.

Mr. WILSON. Yes; that is right.

Chairman GIBBONS. It has been satisfactorily used as far as maintaining your share of the world market.

Mr. WILSON. Yes, sir. That aspect of the business has been satisfactory to us, yes.

Chairman GIBBONS. I was noticing your chief competitor, about 20 percent of his plane is manufactured here in the United States—I mean manufacture of parts here in the United States. I know some time ago we had some concern expressed in Congress about other governments perhaps forcing Boeing into manufacturing parts of the plane in their countries.

Would you like to comment on that?

Mr. WILSON. Well, in the past 5 years we have actually—there has been about 4 percent of our airplane has been built outside of the United States. That is something that I think—that number will increase in the future.

But we do have very competent suppliers in Japan and in Europe and elsewhere, and have for many years. I think the main interest recently has been our Japanese and Italian subcontracts, major subcontracts, in which case those companies in those countries have participated on a risk-sharing basis on the 767 program where their participation was in the order of 10 percent.

And we now have an understanding with the Japanese that if we proceed with a major effort in the so-called 150-passenger market, that they would participate again and to a greater extent.

I think this is not inappropriate in view of the fact that the Japanese, for instance, are our largest single customer outside of the United States, and represent some 10 percent of the total market.

And, as I mentioned earlier, the Europeans still are 20 percent of the total market.

Chairman GIBBONS. In studying my briefing material—I don't know whether it was your items or some of ours in Congress, came to the conclusion that in order to be profitable in the aircraft industry, on a free market basis, you probably in the large aircraft area have to manufacture about 300 or 400 aircraft and then to make a profit you have got to set up to about 700.

Is that a ball park estimate? And how does that apply to Airbus, and some of the other companies that are competitive?

Mr. WILSON. Well, that varies from one product to the other. Usually, depending on how good a job the company and the management does, we usually price our airplanes intending to break even around the 300 airplane point.

I would have to admit that quite often before we reach the 300 airplane point we make a major change in the model, something that we didn't do to any extent on the 727, but we certainly did on, say, for instance, the 747, and now we are certainly doing it on the 767.

We make major model changes which push the so-called breakeven point further out. We do that thinking we are going to increase the market enough to work that out.

We have been fairly successful in that activity. But your number is correct, around 300 airplanes.

Chairman GIBBONS. Well, that must mean that companies like Airbus have got a long way to go before they are really breaking even on a commercial basis.

Mr. WILSON. Well, we are not an expert on what Airbus costs are. But I would not be surprised if they have yet to produce an airplane for less money—that is, in their recurring costs, this is ignoring their initial costs—but that they have produced an airplane with recurring costs which is less than their selling price.

Chairman GIBBONS. They appear to be—at least on the surface—appear to be repaying their capital infusions from the foreign governments. I am not sure whether they are borrowing the money to repay with or what it is. But at least they go through the pretense of paying back their capital infusion from their sales.

But as I stated, that may be so hidden in their price structure or in their capital structure that we cannot really figure out what is happening.

Have the Europeans taken any particular—have they done anything in particular to hurt Boeings' possibility of being more competitive in the European market where they own the aircraft industry and also own the airlines?

How are you able to compete in that kind of environment?

Mr. WILSON. Well, I would hasten to point out that British Airways, Air France, and Lufthansa are three of our best customers.

Chairman GIBBONS. So we don't want to knock them.

Mr. WILSON. No. We certainly don't. I think we would be naive to assume that the fact that the Airbus consortium is building an airplane quite similar to the 767 hasn't had something to do with the fact that that airplane has sold in Europe and gotten, say, 80, 90 percent of the European market, whereas our airplane has only barely penetrated that market.

So there are some national interests obviously being served there. I am sure the Airbus people would say the fact that they have only penetrated the market in this country with Eastern and maybe another airline, also represents national interest on our part.

But every time we lose a sale, we tend to think that there might be something else hanging in there. These are things that are difficult to be sure of.

But I think there is no question that the high government officials in all three of those countries work those sales harder than their counterparts in this country, which is understandable, in view of the fact that there are competitive companies, two companies here, and they are representing only one.

We run into some of that in various forms.

Chairman GIBBONS. Well, I know the aircraft industry is a high-skilled, labor-intensive industry. While there are some advantages of mass production in it, I wonder how, with the high labor standards we have in this country, and everything else, that a company such as Boeing is able to compete with some of the lower labor cost areas and even greater government intervention.

It is quite a tribute to your organization that over the years you have been able to do that. We appreciate your leadership.

Mr. WILSON. Thank you, sir.

Chairman GIBBONS. I wonder—I am sure my colleagues have either statements they would like to make or questions. Mr. Long?

Mr. LONG. Thank you, Mr. Chairman.

Mr. Wilson, how bad a problem is the overvalued dollar, the dollar and its current evaluation, causing you?

Mr. WILSON. That problem is not as severe with us as it is in most other industries. Right now our competitor in Europe prices their product in dollars. I would assume that by virtue of the increase in the relative value of the dollar to their currencies, in effect, their labor costs are going down.

However, their inflation rates are substantially higher, too. And how that is all working out, I would not know in the end. But as I said earlier, I think that their sales price is still less than their recurring costs on each item.

Mr. LONG. How big a problem is the high interest rate problem for you?

Mr. WILSON. The high interest rate problem is very difficult for all of our customers, whether they are doing well or whether they are doing poorly. But in the case of the financially starved airlines, it is literally a make or break item.

And it is certainly one of the reasons that the airlines as a group are letting the age of their equipment increase very substantially and that airlines are operating equipment which has become obsolescent, and in the terms of fuel burned and in the terms of noise, and they continue to operate them, whereas if they had the wherewithal, they would certainly purchase new equipment.

Mr. LONG. Related to some extent to this problem, a more encompassing problem, is the one of overall deregulation. From your perspective, what has been the effect of deregulation of the airline industry by the Congress and the executive branch?

Mr. WILSON. Well, it has been a traumatic experience for the airlines.

Chairman GIBBONS. Some of the riders, too.

Mr. WILSON. Since we have customers on both sides of the fence on that subject, we have tried to limit our efforts and discussions in the area of where we have something to contribute. One of the things, it has had an effect even on the type of airplane which is the most popular.

Right now we are going to a much smaller airplane, relatively speaking. Whether that will hold true in the future, I don't know.

It certainly will if there continue to be increasing numbers of airlines. There is even greater emphasis on the operating costs and the initial costs of the airplanes. So we are trying to work those problems.

Mr. LONG. As Mr. Gibbons said, it has been traumatic with respect to a lot of the customers of the airlines. It is just amazing what the rate structure has done.

Mr. WILSON. Yes. It has gone both ways.

Mr. LONG. That is right.

Going to a small town in Louisiana, I feel sometimes I am subsidizing people coming to the west coast, California, particularly, out of New York or Washington, because you can go there cheaper and back than you can go to my home town in Louisiana, and the distance is about half.

The current political climate worries me about our ability to increase cooperation that exists or in my opinion should exist—it certainly does in the airline industry, in the Export-Import Bank—between government and business. The Congress seems to me to be permeated by an attitude of protectionism.

The debate seems to be focused on the extremes, on either the extreme of a free market or a massive Government protectionism. Do you have any ideas how we could get this out of the ideological terms and get it down to a discussion of where it really ought to be?

And I think all sides are guilty of it. If you talk industrial policy to a business group these days, they turn their nose up and walk the other way and hold their nose. At the same time, if you define it by practically any definition, the Export-Import Bank is a very clear and definitive example of the industrial policy of the country.

There are a number of other such industrial policies being followed by the United States. We don't do it in any coordinated form, but on a sector basis rather than a common basis.

Could you talk about that a bit for us? What brought it up specifically here is, one of the things that could happen is that as we move further and this gets more structured and more crystallized, if we are not careful those that favor a broader industrial policy, particularly those that favor some type of industrial policy for the ailing industries like automobiles, steel, machine tools, and some of those, are going to look very much askance at the industrial policy that gives favorable financing to the aircraft companies like yours.

And I see the whole program becoming endangered unless it can be moderated out. And I wondered what your thinking is about this.

Mr. WILSON. Well, first, with respect to those businessmen who are opposed to an industrial policy, Irv Shapiro is a member of our board. He doesn't happen to be one of those. He has just written a book on that subject, I think.

So there is some mixed emotions within the business community.

Mr. LONG. I am familiar with what Mr. Shapiro has done, and the senior partner from Lazar and Mr. Frazier, I guess, is the third one.

Mr. WILSON. Yes. I think if there is an industrial policy developed, certainly in the context that I understand that he has talked about, I would not want it to be just limited to the automobile and the steel and so forth.

I would want us to participate in it, if that was the name of the game at the time. You are correct in your remarks about people's concern over things like the Eximbank for our industry whereas they are having difficulties themselves.

But I think the Eximbank at least has to be reviewed on its own and the money that has been spent in that area—in fact, none has been spent, there has been a return on the investment there—but those moneys that have been used and maybe at a lower rate, at least part of the time, than would otherwise be warranted, have certainly paid off royally in exports for this country, and they are certainly necessary to make the sale in light of the sensitivities of all of our customers to the interest rates.

Mr. LONG. I agree with that. I don't think that detracts from the other argument, though.

Let me ask you another question that is related to this. How much flak do you get from foreign countries when you talk about subsidy by them as to this constituting, in effect, a subsidy by the United States?

Mr. WILSON. I think the other countries, in our business, are doing so many things themselves they don't mention it.

Mr. LONG. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. OK. Don Bonker.

Don, before we go to you, we are up here under the auspices of the Trade Subcommittee, but we are a team when we work in Washington. Don Bonker is a very important member of this team, because of his crusade in trying to make sure that we have an intelligent export policy.

We can have a good product. We can have it appropriately financed and merchandised. But if you cannot get a license to export it, it doesn't do any good. Don Bonker has been fighting an effective but sometimes very lonely fight, trying to have a more rational policy on exports.

Don is a part of our trade team. I turn the floor over to you for awhile.

Mr. BONKER. Thank you, Mr. Chairman, for those kind words.

On behalf of the State delegation, I want to extend a warm welcome to you and the members of your prestigious committee, and express our gratitude that you are willing to take time out to visit the Northwest and to become more familiar with our major industries and particularly those involved in exports.

Chairman GIBBONS. Don, let me say I wish I had come sooner. It is a beautiful place.

Mr. BONKER. We are going to make your visit here an enjoyable one.

Since I have become involved in trade issues, I have really come to appreciate the fact that the No. 1 manufacturer in the United States today is Boeing, located right here in the Pacific Northwest. Indeed, Mr. Chairman, this State is heavily dependent on exports.

When you look at Boeing, the Puget Sound area, eastern Washington, where 90 percent of the wheat produced is destined for export, the wood products industry, which is getting more heavily involved in exports, and our high-tech industries, which are becoming more dependent on exports, you can see that this area has linked its economic future to international trade. We are terribly interested in your committee's work. And we have been able to come to you from time to time on behalf of our industries and you have always been very open and responsive. For that we are deeply grateful.

Mr. Wilson, frankly, I am impressed with your export performance, given the fact that there are a lot of impediments: The predatory practices in your business the overvalued dollar, which may not have a direct bearing, but most certainly has an indirect one, the problem of mixed credits, when other countries attempt to link their sales performance to various forms of foreign aid, and export controls. Yours is a remarkable performance, when one looks at the problems you have to deal with on an ongoing basis.

My only question relates to leasing arrangements. Given the facts that much of the world today is still in a state of recession, and that Latin American countries face heavy indebtedness do you find that your company now has to rely more on leasing arrangements rather than direct sales, and if that is the case, how are leasing arrangements now handled in terms of GATT guidelines and international rules for leasing arrangements?

Mr. **Wilson**. I am going to ask my associate, Mr. Thornton, to handle that question, because he has been involved in this business.

Mr. **Thornton**. Thank you.

Looking at the total industry, leasing has become a much greater factor in this country, and some of it has to do with the tax legislation and some of it has to do with—we understand—the rules in our financial community.

Thus far it is one of the big holes in all of the international agreements on aviation—the whole subject of leasing. Even the definition of a lease, because most of the foreign regulations apply to what are really conditional sales.

It is not a true lease. So internationally, it has been pretty much not done. There is continued pressure, and I think rather than out of the less-developed parts of the world—South America and so on—I think the pressure is going to come largely from the more affluent Far East where they have done some already, United States leases to places like Singapore and Japan, and Western Europe.

We could get into a situation—right now predatory financing is not—knock on wood—a big issue. I think both sides are pretty much playing by the rules today. That has not always been true.

And I think that is an area where the rules are kind of murky and we could see some problems there in the future.

Mr. **Bonker**. Have Congress' efforts to increase the Exim authorization, and at the same time expand the Exim mandate to deal more effectively with these problems, had an indirect bearing on cooperative efforts of European countries with regards to predatory financing?

Mr. **Thornton**. I am not sure I understand your question.

Mr. **Bonker**. Well, a few years ago this was, indeed, a prominent issue for Boeing and other large exporters.

Mr. **Thornton**. Yes.

Mr. **Bonker**. But Congress has reacted by upping the Exim authorization and expanding their mandate so that they deal more effectively with predatory credit practices.

My question is whether congressional efforts in this direction induced European countries into these cooperative ventures, on keeping that kind of financing down.

Mr. **Thornton**. I don't think there is any question about it. You have got to fight force with force and strength with strength. And the action of Congress in effectively strengthening the Export-Import Bank's hand—no question but that it has a bearing on the fact that the rules are now more nearly identical.

Mr. **Wilson**. I could see Exim coming back on the front burner, too—the reason some of the rhetoric concerning the Exim has abated recently is because of the worldwide recession.

When our products really start selling, not only ours, but others, there is going to be even greater demand for the Exim. But Congress in both this administration and the previous one has led the way, and we darned well appreciate it.

Mr. **Bonker**. I might just add that that effort was led by Mike Lowry, who aroused those of us in the State delegation and really led the effort both in the committee and on the House floor to restore that money and make Exim more effective.

Chairman **Gibbons**. Could I interrupt here a minute to talk a little about the leasing rules, because we write tax policy in this group too, as well as trade policy.

I realize that the leasing rules as interpreted by Congress and the IRS can sometimes play havoc with your business. Are our leasing rules competitive with the leasing rules of other countries now in the leasing of aircraft?

What impact does it have upon you, what we are doing in the IRS Code?

Mr. **Thornton**. The principal leasing rule that I think you are referring to is the tax benefit lease, leverage lease, which can be utilized by just a small segment, or could be utilized by just a small segment of non-U.S. airlines. That is, those airlines whose equipment landed in the United States with some regularity. And I cannot remember the rules.

So you are talking about the large international carriers. And in that case you are talking almost exclusively 747 model aircraft. Those rules have been changed.

My view is that, as in the case of a lot of the governmental rules, you can live with the rules if you understand them, and if they don't change. That is one of the big problems—I will divert a little bit to Congressman Bonker's favorite subject—export controls. The worst thing about that is the fluidity. We don't know where we stand. I guess maybe in Libya we know where we stand, but that is an exception. The rest of the world is gray.

And it is hard to run a business when you don't know where you are going. I think leasing is somewhat the same. We can live with the rules if they don't change and are not retroactive and so on.

Chairman **Gibbons**. Is Airbus inhibited—do we have a leasing rule requirement as we do, or do you find yourself competing adversely on leasing requirements with them?

Mr. **Thornton**. No. With one exception, and maybe two, and those were leases into this country—the old Eastern Airlines deal that was done 6 or 7 years ago, and more recently a small airline involving two airplanes on a lease.

In the third countries we have not had that—it is not a competitive problem, at least today.

Chairman **Gibbons**. Well, keep in touch with us, if you will, with that.

Mr. **Thornton**. We are keeping as close as we can to the situation. You will hear us yell.

Chairman **Gibbons**. We often find that particularly our tax staff looks at everything from the point of view of the American economy and how it impacts the American economy, not realizing that international businesses such as yourselves have to compete around the world and we have got to have competitive types of treatments after we get outside of the boundaries of this country.

That worries me. We have not given enough attention to it.

Mr. Pease is a member of the Trade Subcommittee of the Ways and Means Committee. He always keeps our feet to the fire because he represents a part of the United States that has had a very tough time adjusting.

Mr. Pease is from Lorain, OH, where they have an automobile industry, a steel industry, and a shipbuilding industry, machine tools industry, and all of them have been heavily impacted.

Mr. **Pease**. Thank you, Mr. Chairman. I was happy to have you use the present tense for all those industries. We hope we still have them and will continue to have them for a while.

I, too, would like to thank Mr. Wilson and Mr. Thornton for their testimony. I am particularly interested in the question brought up earlier about partial production overseas.

Were you required as a condition of getting into the Japanese market to establish some parts production or coproduction in Japan?

Mr. **Thornton**. No; not at all. Both sides, our selling in Japan and our purchasing from Japan, have been pure business. They are competitive.

They are tough customers, too.

Mr. **Pease**. Is there any possibility that the Japanese will get into the commercial aircraft business in the next 15 to 20 years?

Mr. **Thornton**. That is conjectural. And I think anything is possible. My own view is that it is unlikely. I think this industry, just because of the magnitude of the investments, and the nature of the market, is becoming more internationalized.

And I can see Japan as playing a significant role in international programs. I can see Japan expanding its production of components of all kinds.

I do not see Japan as the Boeing of Tokyo.

Mr. **Pease**. I was also interested——

Mr. **Wilson**. Mr. Pease, could I just add something to that?

I think it should be pointed out that Mitsubishi and Fuji and Kawasaki, if we had three categories of suppliers—good, superior, and mediocre—presumably we would not have them if they were not in one of those three categories—that all three of those companies are in the "good" category.

They are exceptionally good. And they are from the start of a program until the end of it, and they are from program to program. And there are other companies in the United States—there are companies in the United States that do a comparable job continuously.

But not all U.S. companies are doing that good a job continuously. So that is the reason that we have some respect for the work that is done over there. And the reason that we could come to some kind of an agreement as we have.

The other thing I would say is that—well, also we are very careful to watch what we think is the productivity of their work as compared to work we do in-house. And we think that at least at this stage that we are equally productive, and that takes into account our somewhat higher labor scales.

But I think that if the Japanese take over the commercial airplane business, it is probably going to be on account of something wrong with the Boeing Co. management, and the McDonnell Douglas management, than it is anything else.

Mr. **Pease**. Thank you very much.

I also was intrigued earlier by the comment that many of the airlines since deregulation have gone to smaller aircraft. What is the smallest plane that Boeing produces, and do you have any plans for getting into a smaller plane yet?

Mr. **Thornton**. The smallest airplane we produce today is the 737-200, which is an airplane that was first delivered in the late sixties. It is a twin engine airplane. It carries, depending on the airline, 115 or 120 people. When you get below that—and we are looking—we have some studies going on in what you might call the hundred seater.

There are two European airplanes in that category—not Airbus. One built by Fokker in Holland and one built by British Aerospace. That market looks marginal to us at this point. God knows, it could change.

So our biggest effort is in a larger airplane, 150 or 180 seats. In terms of studies.

Mr. **Pease**. I see.

Finally, I would like to turn to the question of industrial policy which was raised by Mr. Long earlier. One of the characteristics of Japanese industry is the paternal attitude which the industrialists take toward workers in their plants and the concept of lifetime employment.

I am curious to know what, if any, arrangements the Boeing Co. has for its workers in the event that layoffs are required.

Mr. **Wilson**. Well, I think the honest answer to what you are saying, in the context you are asking that question, that we do not have anything comparable to what at least I understand the Japanese to have. I point out we have one program right now that is going quite well for people who are on layoff status to get training in computer work or electronic activities where we are bringing people in.

And this is something that is going on between the company and the International Association of Machinists, in fact, part of the labor agreement we negotiated the last time around.

I would also point out that in that labor agreement we are working on certain labor saving devices, and there is a good cooperation on that, and I think a very farsighted view on the part of our labor people in that area.

But these are not major numbers. They are in the dozens at this stage as opposed to the thousands or certainly the tens of thousands.

Mr. **Pease**. Thank you, Mr. Wilson.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Yes, sir. Mr. Chandler, as all of you know, is a Member of Congress from the area immediately east of here. Trade policy, ever since I have been a Member of Congress, has been a non-partisan-type of approach to it. We have worked at it broadly. We welcome him here this morning.

We recognize many of your constituents work on this side of the lake in the industries over here. We welcome you to our hearing this morning.

Mr. **Chandler**. Thank you, Mr. Chairman, very much.

I want to thank you for coming and add my welcome to the State.

I think you will find—since you are talking about nonpartisanship—that is the way we work here in the State. We are Republicans and Democrats in the month of November, and then our delegation gets back to Washington—because we are small, only 10 members—we have to work together and we do.

I know the two members with me here today are very, very instrumental and deserve the support of their constituency for their work on trade.

We are concerned about protectionism. I think that is probably the No. 1 concern. You will hear that theme over and over again today. The Boeing Co. has 2,525 suppliers in the commercial airplane portions of its business. Six of them are in your State, in Florida; 116 of them are in Ohio.

Mr. Long, we will have to do better by you. There is only one down there. So any time we are looking at a protectionist piece of legislation that would affect this airplane manufacturer, it is affecting those 2,500 some suppliers all across the country.

We are not interested in protectionism. We are interested in fair trade.

While I have the opportunity, and before the electronics people get up here and say the same thing, it is not exactly related to trade, but the research and development tax credit is an incredibly important issue for the emerging electronics industry in this State.

And I know it is very important in your State, as well, Mr. Chairman. It is something that I was very disappointed that the conference committee did not include in the tax bill. I certainly hope that that will be on the top of the agenda when we reconvene in 1985 session to make that—to make——

Chairman **Gibbons**. Could I interrupt just a minute and say I regret they didn't, too. I was a sponsor of the R&D tax credit. The people that were pushing that have done some very innovative things to make the credit work more effectively and to make it less expensive.

It was decided, though, in the conference committee that since that credit was not expiring until next year, that we would put it off until next year to make the decision. We are going to, unfortunately, have to raise taxes again next year.

We just wanted to kind of level out the playing field so we could look at all of the problems at one time rather than separately. There is a great interest in that tax credit.

I think it is important. I don't know how important it is to Boeing, but it certainly is important to other people. And I hope we can renew it.

I am glad you brought it up.

Mr. Chandler. I thank you for your comment of that. I think it will be reassuring to this very important electronics industry in this State that you have that view.

Just one final comment. And then I would like to ask Mr. Wilson or Mr. Thornton to comment.

When you visit the Boeing plant later today, I think there is something that will impress you that has nothing to do with government or overseas relationships, and that is two things. The product that the company makes and the way it makes it. When we were in Japan, Mr. Lowry, Mr. Bonker, and I, last summer, the Boeing Co., was facing a sale of airplanes to Japan Airlines, as I recall.

We continually told the government leaders in Japan, be sure and help us to sell our product. And they said that is going to be up to the airline and their choice of a product.

Well, they chose Boeing. And I think they did it because the product, the fuel efficiency, noise, passenger comfort, and the competitiveness of the company.

And it got that way, I think—you will see it today—because of the efficiency in the manufacturing of the product. That had nothing to do with government or anything else, Mr. Wilson.

That was management decisions with the cooperation of labor, so that you are lean and mean, and producing a competitive product.

Mr. Wilson. Thank you, sir. Lest someone worries about our silence on the R&D item, that is extremely important to us. When you consider that the whole development of a new airplane, which runs into the billions of dollars, is really—the development side of the research and development—it is a very important item to us. And I think just research and development in general in this country, wherever it comes from, is in the country's best long-range interest.

It is tough when you are trying to get revenue—I understand that, too.

Mr. Chandler. Another division of Boeing is Boeing Computer Services. If you have read Feigenbaum, the book entitled "The Fifth Generation," they are talking about a supercomputer industry, estimates of $500 billion industry.

The United States simply cannot allow itself to be overtaken and beaten in that market. The stakes are way too high.

Chairman Gibbons. Well, Mike, you are last but certainly not least. We are right in the middle of your district. We appreciate not only the charm and the beauty of your district, but the warmth of your hospitality. We appreciate being here.

Mr. Lowry. Thank you, Mr. Chairman. We thank Gillis Long, and our good friend, Don Pease—for your concern.

I agree. I think the Boeing Co. is about the best manufacturer in the world. The fact of the matter is lean and mean cannot compete against four European countries.

I actually appreciate the title on your executive summary, which says "A Case for Continued U.S. Government Support." I would kind of like to follow up on a couple of things that both Mr. Long and Mr. Pease were getting into, which is in the real world that exists today, when we have significant competition from abroad, significant competition, significantly supported by their governments, in essence, we are really in this question now of do we try to protect the jobs in this country by going protectionist, which everybody on this panel is opposed to, and I am strongly opposed to, as you know.

Or do we go aggressive and we go out and we compete where it is necessary, and if we are competing against governments of other countries, then that means we have to have strong government participation, also.

Now, we have been successful on Export-Import Bank improvements in the last few years, due to the support of everybody on this panel. But when we look at things like competing against dumping in steel, when we look at some other industries that Don Pease and others represent, the fact of the matter is they are in a situation that their jobs continue to move away.

What are the chances of getting an attitude in this country of the business community that realizes to be competitive there is a significant role, direct partnership between Government, business, and labor, and moving away from this attitude that is going on right now in many quarters which is the important thing is to have Government comletely out of the picture because that absolutely is the philosophical argument being made by many.

I don't see how anybody can be watching the debates today and not thinking that. Does Government have a role in the competitiveness of U.S. products in the international market?

Mr. Wilson. Well, I think the answer to that is without question, yes. And I don't think that many of my counterparts in the business community would say that that is not the case, nor would they say that business and labor and Government should not work together.

I think the argument is "how do they do it"—in fact, they are involved to some extent now, and many of us complain—that they are not as effective as they could be, or not as effective as the French or others. But I think the question is—I think business people in general are wary of a new bureaucratic system being set up which would—which they don't know what its effectiveness is going to be.

They would almost rather try to cope with what they have than to take this next step. I don't think there is any question that we have some degree of working relationship now. So it is just a matter of formalizing it or what you would do if you were turned loose on it.

So they are wary of it. I think that is the problem. I don't think there is any disagreement of whether we should work together.

Mr. Lowry. What about within the realm of financing of research and development and financing of the investments that are necessary to compete against products of foreign countries where they are significantly financed by those countries.

Mr. Wilson. We have done that. We did it on the SST, that didn't turn out too successfully, or maybe in a relative sense it is more successful than the Concord, because we didn't lose a bundle on it either.

On that item I think you will find mixed emotions. At least at this point in time the Boeing Co. can finance a new product. We probably don't want any Government help.

I think most companies in a position to do it don't want Government help in that regard. They obviously appreciate some recognition in the taxes and things where you are making major investments, whether it is for capital assets or research and development.

But with respect to having some kind of Government partnership, I think that is an advantage we have in this case, because if we want to change our model quickly, we can do it. And you can rest assured these contracts we have with the Japanese, for instance, do not take away our prerogatives in that respect.

Mr. LONG. Would the gentleman yield?

Mr. LOWRY. Yes.

Mr. LONG. I compliment you on your progressive attitude toward the understanding of this problem, toward industrial policy. But I am a little afraid you are mistaken as to the attitude of the American business community.

I have met with many of them, spoken to many of the groups and find people—top-level people that you can name that have the attitude that you do, you can nearly name them on your 10 fingers.

There are not many of them around. Most of them don't have this attitude. This concerns me. The ones that do have it, of course—you have learned to live with it, you have come to see and recognize it. But a lot of them have not.

I think it is an important attitude—as Mr. Lowry pointed out and Mr. Pease did. But I think it is an important policy for the country.

It is hard for me to believe that we on a three-legged stool of competition can continue, between American business on the one hand, the Government on the other, and labor on the other, basically can compete in world markets with a country like Japan where they don't have that adversary relationship going all the time.

I well understand and share the concern that you go too far with respect to this thing. But I have been interested in this problem of a good relationship.

I was telling the chairman earlier about an experience I had. I went to Norway looking at it—which, of course, is a small country. They have managed to adopt an industrial policy fairly suitable to the country.

Of course, it is a small country, and it is much easier done. It has nothing like the complexities society or business entanglements that we do, and I recognize that. But it seemed to me if I could get down to a simple example of it and see how it worked, I could see some of the problems and advantages.

I was discussing with the finance minister of Norway—I have been pleased they have been able, by the way, to do this without involving the planning of the lives of their people like has gone on in Sweden—they have done it on a broad macroeconomic policy.

But I was talking to the finance minister of Norway a number of years ago about how we had not been able to do this, and the political attitudes of the country were such we were not able to do it. He smiled and said, "Congressman, you know how we came about adopting an industrial policy for this country? The United States required for us to participate in the Marshall Plan."

Chairman **Gibbons**. You are right. We did inflict a lot of our ideas on people around the world. And some of them survived them.

You are right in pointing out that their society and economy is a lot different than ours. Ours is so complex—as Mr. Wilson pointed out, I am afraid an excessive amount of government intervention slows down the decisionmaking processes and will not allow our business to keep lean and flexible and the ability to meet the ever-changing environment which we must work in.

We have an industrial policy in the United States. I guess the real challenge to us immediately is to try to make it less contradictory than it sometimes appears to be.

Mr. **Long**. We have about 10 of them.

Chairman **Gibbons**. All going in different directions sometimes.

Well, Mr. Wilson and Mr. Thornton, we appreciate you coming this morning and being with us. We were privileged to eat breakfast with you this morning. A real fine breakfast, too, by the way.

I appreciate the fact that you were serving Florida orange juice out there. I hope it wasn't a tilt toward this chairman. But keep in touch with us, if you will, please.

You are out on the firing line. You know what is going on around the world. We need to learn through your eyes and ears and your experiences as to what we could do to keep America competitive without overburdening American industry with our own views.

We appreciate your being here.

Mr. **Wilson**. Mr. Chairman, we appreciate very much the opportunity to spend this much time with you.

Chairman **Gibbons**. Thank you.

Our next witness is Mr. Robert Myhr, manager, international projects, Weyerhaeuser Co.

STATEMENT OF ROBERT O. MYHR, MANAGER, INTERNATIONAL PROJECTS, WEYERHAEUSER CO.

Mr. **Myhr**. Mr. Chairman, Mr. Long, Mr. Pease, and members of the Northwest delegation, I am Robert Myhr. I am manager, international projects of Weyerhaeuser.

We are pleased to have been invited here to address international trade, which is a subject of great importance to our Nation, to the Northwest, and to Weyerhaeuser.

I am going to skip over much of the written testimony which we will be submitting for the record in final form tomorrow. However, I would like to focus on a few key points.

Chairman **Gibbons**. We will put it in the record following your remarks here.

Mr. **Myhr**. Thank you, sir.

Over the last several years, about 25 to 30 percent of our company's business has been in international markets. Export sales in 1983 totaled $870 million. This ranks Weyerhaeuser first in international trade for the U.S. forest products industry and in the top 20 of all U.S. exporters. We export all types of forest products, from logs and wood chips to finished products, including paper, news print, wood panels and lumber, to over 60 different countries. Our largest three countries are Japan, Western Europe and China.

We have provided the subcommittee with a list of our exports by product and country over the last 3 years. This list, I think, clearly indicates our commitment to overseas markets and their importance to us.

It is from this perspective that we approach the issue of international trade.

We have just come through a severe domestic international recession. The recovery has been slow, particularly so for the forest products industry. High interest rates have impacted domestic housing starts and a strong dollar has made prices of our products relatively high when compared to foreign manufactured products. It has also tended to make all foreign goods relatively inexpensive here in the United States for U.S. consumers.

The United States is now importing goods at near record levels. Under these economic circumstances, as we all know, the domestic pressures are strong for protectionism against foreign competition in the U.S. market.

It is our belief that how the United States responds to these pressures will serve as an example to other nations. Our economy still leads the world. Our trade policies still set the tone for what many of our trade partners will do—as they respond to us, others will follow their lead. We have to make certain that it is away from and not toward further protectionism.

Weyerhaeuser Co. is committed to free trade. We believe that free trade, that is trade unencumbered by restrictive tariffs and nontariff barriers such as quotas, restrictive product standards or import cartels, is best for the United States and for its trading partners as well. There may be short-term sacrifices or disruptions that may be accepted, but over the long term they surely are more than balanced by the benefits of free trade, including better product availability, lower prices to consumers and end users, and a higher standard of living for all nations.

We would urge the Congress to concentrate its attention on policies to increase the competitiveness of U.S. exports, because we believe it is the preferred approach to offset imports and our rising trade deficit. The alternative, restricting imports or trying to further protect domestic industries that are no longer competitive, will not be in the best interests of our country or its economy.

It is a critical time. It is a time for a clear message to the world that the United States advocates and intends to continue practicing free trade.

If this country determines that we must protect ourselves from imports, we cannot expect others to reduce barriers to imports of our own products. We have this situation particularly with Japan. Moreover, we should and might expect them to retaliate, invite some kind of mirror-type legislation which would allow them to file complaints against our own domestic tax, investment, and trade policies.

We support efforts to streamline our trade laws, to expand the General Agreement on Tariffs and Trade, and to promote other trade agreements. We also support the notion that our laws must reply if U.S. exports are the subject of discrimination.

But efforts along these lines must be carefully crafted and be consistent with the General Agreement on Tariffs and Trade and not to invite retaliation—we must not send the wrong message to our trading partners.

As a Nation, we must look at our own house rather than focus on how other nations set their economic priorities. We need to review how we allocate and reallocate investment both to old and new U.S. industries where we can be competitive in the world market. We need better training and mobility for our work force. We need strong incentives for research and development, as was mentioned earlier, and promotion of practical applications for high technology. We agree that we need better cooperation between government and industry, as mentioned earlier.

Just a few examples.

The Foreign Agricultural Service has been working quite closely now with the forest products industry in helping to sell our world products overseas. We think that is a good example of some further cooperation between Government and industry. But our main message is, we need to put our efforts together into being better competitors before we complain about competition from others.

And let me just cite three specific examples. Actually I will cut it down to two in the interest of time.

The first item I would like to mention is high Japanese tariffs. Japan is the single largest customer of the Northwest forest products industry. A significant barrier to expanding our trade with Japan is its tariffs. Japan's tariffs structure favors raw materials and semimanufactured products over finished products. For example, logs, wood chips, and wood pulp enter Japan duty free, but panel products, like veneer, plywood, particle board and kraft linerboard are subject to duties that impair our ability to compete there. The tariffs for these products are in the 7 to 10 percent range, considerably higher than the overall tariff rate of about 3½ percent. Without these tariffs and even taking into account ocean transport costs, U.S. forest products producers would be even more competitive than we already are today in some of these products.

Over the last year and a half, the National Forest Products Association and the American Paper Institute have been very active in trying to have these tariffs eliminated. In fact, these tariff issues remain our top industry trade priority, and our associations have undertaken several visits to Japan to talk to government and industry leaders. To date, we have received excellent support from the administration and from Congress for our industry's tariff program. We particularly appreciate, Mr. Chairman, your concerns and that of others here today on behalf of our industry. We even have had support from Vice President Bush and the President who have clearly placed forest products tariff elimination among our Nation's highest trade priorities. Unfortunately, the Japanese have done very little in response. They have accelerated by 5 years a 2.3-percent tariff reduction for kraft linerboard that they had previously agreed to during the Tokyo round of the multinational trade negotiations.

However, in wood panel products, they have taken virtually no action to reduce tariffs.

We must maintain the pressure to eliminate these tariffs. We must work with the Japanese, recognizing the little progress that has been made, but make it clear that more action must follow. Because the U.S. forest products industry is competitive, our exports to Japan represent one sector where the United States can make a significant step toward reducing our trade imbalance, and it is important that we have the tariffs removed to try to increase those sales.

Let me emphasize also what we have told the Japanese. Tariff elimination will benefit Japan as well as the United States. Japan is faced with increasingly high costs of internal production and a shrinking supply of hard wood raw material from its traditional South Sea sources and will need more imports of our softwood finished products from the United States.

I would like to conclude with some remarks about the U.S. dollar. Today as we all know the dollar is at very high levels, primarily we believe, because interest rates in the United States are so high. At today's exchange rates, the strength of the dollar makes U.S. exports relatively expensive. It is a major factor in preventing expansion of U.S. forest products exports in international markets and it has caused some problems in keeping our market shares in places like China and Japan. In economic terms, it is probably of greater concern to us than even the tariff barriers that we face.

In Europe, our pulp exports from efficient U.S. producers have suffered as high cost, relatively inefficient Swedish pulp producers have enjoyed the benefits of incurring costs in devalued krona and selling in more expensive dollars. Likewise, our Italian lumber customers now pay nearly double for a unit of wood in lira, even though the U.S. producers export price in dollars has fallen 20 percent.

I would like to express to the committee our view that the problem lies mostly with the United States. The Japanese, under pressure from the United States, have recently agreed to take some initial steps to internationalize the yen and these steps may help. But the United States must take effective action to control our spending, reduce our deficit and bring our interest rates down. The rate of increase in our Government expenditures has to be brought under control.

Some progress has resulted from recent actions taken by the Congress, but more action must be taken. We believe that the real message with respect to the dollar is strikingly similar to the message we emphasized with respect to increasing our exports. We must first look at what is going on here at home. We cannot continue to ask others to help us place the U.S. dollar in better balance with other currencies unless we first help ourselves.

Thank you for the opportunity to make these remarks. I would be pleased to try to answer questions.

[The prepared statement follows:]

STATEMENT OF ROBERT O. MYHR, MANAGER, INTERNATIONAL PROJECTS, WEYERHAEUSER CO.

Mr. Chairman, members of the subcommittee, good morning. I am Robert Myhr. I am Manager, International Projects with Weyerhaeuser Company.

We are pleased to have been invited here today to address international trade, a subject that is of great importance to our nation and the Northwest, and to Weyerhaeuser.

I would like to begin with some facts about the commitment our company and our industry have made to international trade, and follow with some general remarks about overall trade policy. Following that, I would like to discuss some specific trade issues.

Weyerhaeuser is a fully-integrated forest products company, employing over 40,000 people. We grow most of our raw material on 5.9 million acres of privately-owned commercial forest land in the U.S., and have harvest rights to about 7 million acres in Canada.

We have 133 manufacturing facilities in over 80 locations in the U.S., Canada and Malaysia that produce a full spectrum of pulp, paper and wood products for domestic and international markets. We have diversified into real estate development, mortgage banking, insurance, and other businesses.

Last year, our total sales were $4.9 billion. Over the last several years about 25-30% of our business has been in international markets. Export sales for 1983 totaled $870 million. This ranks Weyerhaeuser first in international trade for the U.S. forest products industry, and in the top twenty of all U.S. exporters.

Overall, the U.S. forest products industry directly employs about 1.2 million people in the U.S., and in 1983 exported about $7 billion of products.

We export all types of forest products, from logs and chips to finished products like paper, newsprint, panels and lumber to over sixty countries. We have provided the subcommittee with a list of our exports, by product and country, for the period of 1981-83; the list, I think, clearly indicates our commitment to overseas markets and their importance to us. It is from this perspective that we approach the issues of international trade.

We have just come through a severe domestic and international recession. The recovery has been slow, particularly so for the forest products industry. High interest rates have impacted domestic housing starts. And a strong dollar has made the prices of our products relatively high when compared to foreign manufactured goods. It has also tended to make all foreign goods relatively inexpensive for U.S. consumers. The U.S. is now importing goods at near record levels.

Under these economic circumstances, domestic pressures are strong for protection against foreign competition in the U.S. market.

It is our belief that how the U.S. responds to these pressures will serve as an example to other nations. Our economy still leads the world, and our trade policies still set the tone for what many of our trade partners will do. And as they respond, others will follow their lead; we have to make certain it is away from and not toward further protectionism.

Weyerhaeuser Company is committed to free trade. We believe that free trade—trade unencumbered by restrictive tariffs and non-tariff barriers, such as quotas, restrictive product standards or import cartels—is best for the U.S. and its trading partners. There may be short-term sacrifices or disruptions that must be accepted; but over the long term they surely are more than balanced by the benefits of free trade, including better product availability, lower prices to consumers and end users, and a higher standard of living for all nations.

We would urge the Congress to concentrate its attention on policies to increase the competitiveness of U.S. exports because we believe it is the preferred approach to offset imports and our rising trade deficit. The alternative—restricting imports, or trying further to protect domestic industries that are no longer competitive—will not be in the best interest of our country or its economy.

This is a critical time. It is time for a clear message to the world that the U.S. advocates and intends to continue practicing free trade.

Let me turn now to a number of specific issues of particular concern to our industry and the Northwest:

1. *High Japanese Tariffs.* Japan is the single largest customer of the Northwest forest products industry. A significant barrier to expanding our trade with Japan is its tariffs.

Japan's tariff structure favors raw materials and semi-manufactured products over finished products. Logs, wood chips and pulp enter duty free; but panel products (veneer, plywood, and particleboard) and kraft linerboard are subject to duties that impair our ability to compete. The tariffs for these products are in the 7–15% range—considerably higher than Japan's overall tariff rate of about 3½ percent. Without these tariffs, and even taking into account our ocean transport costs, U.S. forest products producers would be much more competitive than we are today.

Over the last year and one half, our industry associations (primarily the National Forest Products Association and the American Paper Institute) have been very active in trying to have these tariffs eliminated. In fact, these tariff issues remain our top industry trade priority and our associations have undertaken several visits to Japan to talk to government officials and industry leaders.

To date, we have received excellent support from the Administration and Congress for our industry's Japan tariff program. We particularly appreciate, Mr. Chairman, your correspondence and that of others here today on behalf of our industry. And U.S. negotiators, including Vice President Bush during his recent visit to Japan, and President Reagan several weeks ago prior to his China trip, have clearly placed forest products tariff elimination among our nation's highest trade priorities.

Unfortunately, the Japanese have done very little in response. They have accelerated by five years a 2.3% tariff reduction for kraft linerboard that they had previously agreed to during the Tokyo round of the MTN negotiations. In wood panel products they have taken virtually no action to reduce tariffs.

Mr. Chairman, we must maintain the pressure to eliminate these tariffs. We must work with the Japanese—recognizing the little progress that has been made—but make it clear that more must follow. Because the U.S. industry is competitive, forest products exports to Japan represent one sector where the U.S. can begin to make a significant step toward reducing its trade imbalance—if this tariff question is resolved.

And let me emphasize what we have told the Japanese: tariff elimination will benefit Japan as well as the U.S. Japan is faced with increasingly high costs of internal production and a shrinking supply of hardwood raw material from its traditional South Sea sources, and will need more imports of our softwood finished products.

2. *High Tariffs in Developing Countries.* A number of developing nations also maintain high tariffs, and other non-tariff barriers as well, against forest products imports.

For example, although Korea has just announced some tariff redutions, its tariffs will remain in the 15–20% range for many products. Taiwan's rates are also high. Indonesia recently announced a prohibitive 60% tariff on kraft linerboard imports that simply cuts off a market where we had hoped to be competitive. And last year, through tariff action, Venezuela eliminated softwod lumber imports.

Our industry associations are also working on these tariffs, and have received some support from government officials. But one of the keys to succeeding with these nations appears to be the GSP (Generalized System of Preferences) program. At the end of this year, the GSP program will expire unless renewed by Congress. That program should be renewed. But, in return for GSP treatment by the U.S., the beneficiary nations need to demonstrate their willingness not to raise new import barriers and to move toward eliminating existing barriers to the entry of imports from the U.S.

3. *Treatment of Imports to the U.S.* How Congress and the Administration deal with the range of proposals relating to domestic content, reciprocity, trade remedies, and the cases seeking countervailing duties, quotas and other like relief from imports from our trading partner nations, will very likely set the stage for how well we fare with gur export objectives and the elimination of tariffs by our trading partners.

If this country determines that we must protect ourselves from imports, we cannot expect others to reduce barriers to imports of our own products. Moreover, we can and should expect them to retaliate, to enact mirror legislation that will allow complaints to be filed against our own domestic tax, investment and trade policies.

We support efforts to streamline our trade laws, to expand the GATT, and to promote multilateral trade agreements. We also support the notion that our laws must enable us to reply, if U.S. exports are the subject of discrimination. But efforts along these lines must be carefully crafted to be consistent with the GATT, and not to invite retaliation. We must not send the wrong message to our trading partners.

As a nation, we must look at our own economic house rather than focus on how other nations set their economic priorities. We need to review how we allocate and reallocate investment to both old and new U.S. industries where we can be competitive. We need better training and mobility for our workforce. We need stronger incentives for research and development, and promotion of practical applications of high technology. We need better cooperation between government and private industry.

In short, we need to put our efforts into being better competitors before we complain about competition from others.

4. *Canadian Lumber Imports.* An example of protectionist pressure in our industry is the current concern over imports of Canadian lumber to the U.S. Exports of lumber to the U.S. from Canada amounted to about 60% of Canadian lumber production in 1983, and the figure appears to be even higher so far this year. The Canadian share of the U.S. market is about one-third.

Last year the U.S. Department of Commerce found that any Canadian subsidy on stumpage, production or shipment of softwood lumber to the U.S. was not significant. However, some segments of the U.S. forest products industry are still seeking relief in the form of restrictions or tariffs on Canadian imports.

Our belief is that unilaterally imposed sanctions by the U.S. will not be in the long-term best interests of either nation. We urge a more positive approach: encouraging the Canadians to continue participation with U.S. industry in programs to expand and develop markets for wood in the U.S., Canada and overseas.

5. *European Plywood Quota.* The EC quota is another forest products issue that could be affected by the message our nation sends about our commitment to free trade.

From our viewpoint, there is no substantial justification for the annual duty-free quota presently set by the European community at 600,000 cubic meters—it appears to be in place solely to protect one French plywood mill. The quota is typically filled before the first quarter is over. Europe clearly needs to import softwood plywood and this quota serves only to make it more expensive and more difficult to do so.

We have been trying to get the support of European importers, so far with little success. We are perhaps at the point where assistance from higher levels of the U.S. government would be useful. But we could expect little relief, even with such assistance, if the U.S. does not remain receptive to imports from the EC.

6. *High Value of the Dollar.* I would like to conclude with some remarks about the U.S. dollar. Today, as we all know, the dollar is at very high levels in international exchange markets, primarily because interest rates in the U.S. are so high.

At today's exchange rates, the strength of the dollar makes U.S. exports relatively expensive. It is a major factor in preventing expansion of U.S. forest products exports in international markets, and is causing some problems in keeping our market shares. In economic terms, it is probably of greater concern to us than even the tariff barriers we now face.

We especially have a problem in Japan, where the yen may be relatively undervalued against the rest of the world's currencies. And in Europe, our pulp exports from efficient U.S. producers have suffered as high-cost Swedish pulp producers have enjoyed the benefits of incurring costs in devalued Krona and selling in more expensive dollars. Likewise, our Italian lumber customers now pay nearly double for a unit of wood in Lira—even though the U.S. producer's export price in dollars has fallen 20%.

On the import side, the current strong U.S. dollar in relation to the Canadian dollar gives Canadian producers a distinct advantage in U.S. markets.

I would like to express to the subcommittee our view that the problem lies mostly with the U.S. The Japanese, under great pressure from the U.S., have recently agreed to take some initial steps to "internationalize" the yen, and these steps may help.

But the U.S. must take effective action to control our spending, reduce our deficit, and thus bring interest rates down. The rate of increase in our government expenditures must be brought under control. Some progress has resulted from recent actions taken by Congress, but more action must be taken.

The real message with respect to our dollar is strikingly similar to the message we emphasized with respect to increasing our exports: we must first get our own house in order. We cannot continue to ask others to help us place the U.S. dollar in better balance with other currencies unless we first help ourselves.

Thank you for the opportunity to make these remarks. I would be pleased to answer any questions.

Chairman GIBBONS. Thank you, Mr. Myhr.

I was going to ask you to estimate for me if you can what trade potential we are losing to Japan in wood products because of their tariff system.

Let me tell you about my experience with the Japanese while you are thinking about that. My area of the world produces a lot of fertilizer. We produce it because there is a lot of phosphate rock in our area. For years we have tried to sell the Japanese fertilizer. They use a lot of fertilizer. They have very intensive agricultural practices. Instead of buying the finished product, they buy the rock from us, and they haul that rock 12,000 miles through the Panama Canal, across the ocean.

When they get over there, they treat that rock with sulfuric acid and get the little bit of phosphate out that the rock has in it. They have a little bit of phosphate, an awful lot of highly polluted waste material, and they insist on doing that by trying to add every value of yen to their product that they can. As a consequence, they have very high fertilizer costs, which adds to their already very high agricultural costs and food costs. And they have a lot of sulfuric acid, polluted rock to get rid of. And they don't need any more rock in Japan. And we cannot figure out the reason; except they have an industrial policy that is hung over from the fifties that every chance they get they will add value to any product that they import.

I know they don't grow much timber in Japan, little if any. So how much do you think it is costing us and costing them by their very high tariff policies on timber products?

Mr. MYHR. Mr. Chairman, there have been some various estimates on what the trade potential without tariffs would be, but certainly in the long run it is probably into hundreds of millions of dollars. I would like to comment, though, that Japan does have her own resources. Foreigners supply about two-thirds of Japan's forest needs. But a lot of people don't realize that Japan still has about one-third of all her needs supplied by her domestic forests.

In the trend case, over time she may be able, because of limits on the levels of her population, to supply maybe 40 percent of her needs from her own forests, but her costs of production for these products, particularly processing of logs that she buys from Southeast Asia, are going up. And her labor costs are high. The number of people she can get to work in her woods in Japan itself is declining; those people as they become older are not being replaced by young workers. Young workers don't want to work in the woods in Japan. So there is an opportunity for us to supply those products in the future.

Chairman GIBBONS. I sometimes think the weak yen versus the dollar is caused by Japan unconsciously manipulating its policy to produce a very weak yen. I realize there may be some conscious manipulation, too, but unconsciously I think that occurs.

Now we have Al Swift here with us. We are glad to have you with us.

Mr. SWIFT. Glad to be here.

[Mr. Swift's opening statement follows:]

OPENING STATEMENT OF HON. AL SWIFT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

I am very pleased to be here today, and I am encouraged with the stated purpose of this hearing; high technology exports and forest products sales anchor the two sides of our export spectrum in the N.W.—and they are equally important to our nation's developing export strategy.

In a world where American high-technology and consumer products are finding increasing competition from Japanese and European imports, it is reassuring that the most complex and visible high technology product now made—the commercial jet plane—is still made best here in America.

But in today's tight economic environment, we must meet the other imperative of export sales; in order to sell state-of-the-art technology to the world market, we must also have state-of-the-art financing available to compete with foreign loan packages. Key to this—as members of this panel well know—is a strong Export-Import bank capable of keeping the sales of American products cost-competitive on the world market. Money invested in the Exim bank represent prudent investments that make many-fold returns in jobs, profits and revenue for our country.

In conjunction with stimulating high-technology sales, we also need a better-focused policy toward private research and development efforts. It was a great disappointment to me that the House did not accede to a Senate provision in the 1984 Tax Bill which would have continued the R&D tax credits established in the 1981 Tax Act. I hope that the next Congress will address this matter, and encourage, not discourage businesses that devote a portion of their assets to expensive R&D programs that may not create short-term profits but offer great long-term benefits to our competitive position in the world economy.

I'm glad that this panel is also addressing the issue of timber and forest product export sales. As the panel knows, it has been a federal policy that whenever possible we should encourage the sale of value-added forest products rather than ship logs. This is recognized as being the best way to get the most efficient use of timber stands and thus conserve our limited forest base. It also means more jobs here, on this side of the water, where we can process logs using American labor into lumber and veneer and plywood and the myriad of other forest products.

We in the Northwest were very disappointed with the tariff agreement reached with the Japanese this Spring, because it signally failed to deal with the highly discriminatory Japanese tariffs on value-added wood products. I have written to a number of officials in the Japanese government to urge their reconsideration of this matter.

As I stated in these letters, while I believe in a free and open world trading system, the protectionist efforts taken by some of our trading partners can only encourage trade retaliation. It would be a reasonable assumption to make that Japan had a national policy to close that country to American products whenever possible. The conspicuous failure to reach a reasonable compromise on wood products exports can only underline that assumption.

I ask unanimous consent to enter a copy of that correspondence at this point in the record.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, May 22, 1984.

Hon. TOSHIO KOHMOTO,
Director General of the Economic Planning Agency
3-1-3 Kusumigaseki, Chiyoda-ku 100, Tokyo, Japan.

DEAR MR. KOHMOTO: I was pleased to see that your government has moved toward further market liberalization with the trade measures announced April 27.

I was surprised, however, that this package did not include necessary reductions in forest products tariffs. I recognize the political pressure in your country which argues for maintaining the protective barrier which these high tariffs afford certain industry sectors. But the current levels of less than 0.5 percent penetration by imports of total Japanese consumption of wood panel products does not indicate that your industries are threatened.

Furthermore, reducing these tariffs can only gain good will in this country, particularly from the broadly based American forest products industry, the largest supplier of raw material to your country and an industry whose free trade orientation directly benefits Japan's interests here in the United States.

Mr. Ambassador, we in the American Congress also understand political realities. Although most of us believe in a free and open trading system, we are constantly being encouraged to move from that position, particularly to protect US markets where your country holds a significant share. Many of my constituents believe, rightly or wrongly, that your markets are closed to many American products. This latest absence of a response to reduce high duties on such a basic commodity as wood products—an issue of great important to people in my district—continues to support this impression.

Mr. Ambassador, I hope you will urge your government to reconsider its position on processed wood tariffs. The elimination of duties on these products can only benefit our two nations and the relationship between them.

Sincerely,

AL SWIFT, *Member of Congress.*

I am also extremely concerned about the increasing stream of wood products imports from Canada which are entering the United States. It is common knowledge that the Northwest wood products industry is suffering through an extremely difficult period. This has had a particular impact on my district, which is populated by a number of small, independent timber companies which provide employment for my constituents, and, in addition, serve as the lifeblood for the communities in which they are located.

According to one survey of independent mills, the average company lost half of its net worth the past four years. During this period, the real price of lumber produced in Washington State declined about 50%. Total lumber consumption in the United States is down 15% belgw the full production years of 1977–79, but Canadian lumber imports have grown to a full third of U.S. consumption in 1983. British Columbia had a record high level of lumber shipments during 1983.

I am very pleased that the Chairman has convened this hearing to examine this issue. We in the Northwest have to be concerned about this turn of events, and I am hopeful that this hearing can begin the process of fifdifg a solution to this vexing problem.

Chairman GIBBONS. Mr. Long.

Mr. LONG. Thank you, Mr. Myhr.

You pretty well have covered all the points. I was particularly going to ask you about the dollar problem. But you have covered that.

Thank you.

Chairman GIBBONS. Mr. Bonker.

Mr. BONKER. Mr. Chairman, I have a major interest in this particular industry. Timber is still something of an economic foundation of the district I represent. And Weyerhaeuser is a very prominent if not the major employer and landholder in my district. They have done a fine job in terms of management, industrial policy, keeping their export position during this period of world recession, and employing lots of people that otherwise would not be working.

My constituents are heavily indebted to Weyerhaeuser's Global Division and their efforts to automate and stay competitive.

This wood products industry is very complex when it comes to trade, Mr. Chairman. We are not going to belabor all of the related issues. Mr. Myhr will be followed by Mr. Kuehne, who represents another segment of the industry. And they don't have terribly compatible views on some of these trade issues. So it is very difficult in that context.

Mr. Myhr, we have been working closely with you to bring down those tariffs in Japan and in other places.

Mr. MYHR. And we appreciate those efforts very much.

Mr. BONKER. The chairman has joined our efforts. As a result of the delegation here, the Senators and Congressman Gibbons, we have managed to boost this issue to the top of the list of trade items to discuss with the Japanese. The pressure is on, and I think that in due time those tariffs are going to come down. The unfortunate perception in the Northwest, Mr. Chairman, is that the Japanese have no tariffs on logs and they have substantial tariffs on finished products, like your situation with the fertilizer. We all know that there are economic benefits that come with processing the resource, and those benefits are denied many of our companies in the Northwest. So we are dealing with that problem with respect to Japan.

At the same time, the perception is that while we are sending logs to Japan, we are buying finished products from Canada. Mr. Myhr, I think it is somewhere between 33 and 35 percent of our domestic market that Canada now supplies.

Mr. **Myhr**. That is correct.

Mr. **Bonker**. My question is this: In the counties that I represent, there still is economic recession and high unemployment. Many of the wood products companies have closed down. Many of these companies blame Canadian imports along with a few other problems for their economic demise.

How could I reconcile that we ought to encourage the Canadians to become even more active in the American market at a time when our mills are shutting down and are unable to compete because of various forms of government subsidies in Canada that give industries an unfair advantage in our economy?

Mr. **Myhr**. The situation with Canadian lumber is such that it is aggravated in several ways. We have a very strong U.S. dollar that is causing us some problems, as I mentioned earlier. In the development of this housing starts cycle, there was a great belief of a need for everyone to jump into the lumber business, and as a result we have had a huge amount of production coming into the system. Basically an awful lot of inventory in the pipelife. And one of the things that we found also is that with increasingly high interest rates making it harder for people to buy homes, one of the problems we have is that builders are making houses smaller and using less wood in certain applications. So that one aspect which we talked about is expanding the market for wood, working with industry to expand the market for wood—that is one of the issues. And also I would say that we are going to have to continue to recognize that companies have to be very competitive, not only in the international market, but in domestic markets when we are in a very tough situation.

I believe it is fair to say that last year the U.S. Department of Commerce found that any Canadian subsidy on stumpage production or shipment of lumber to the United States was not significant.

Mr. **Bonker**. Let's take that point for a moment. Mr. Kuehne maintains in his statement that the stumpage prices in the Northwest are currently averaging $90 per thousand board feet, compared to a price set by the province of anywhere between $1 and $5 per thousand board feet. If those statistics are true, and considering that stumpage represents about 30 percent of the overall operating cost, that would seem to be an enormous advantage for the Canadians in our market.

Mr. **Myhr**. There is no question that the Canadians have some advantages. It is also tied in with the dollar.

Mr. **Bonker**. Transportation costs.

Mr. **Myhr**. And transportation costs. That is correct. But I think that we also have different methods of setting the determination of the economic value of that timber in the two different countries.

The priorities, the economic priorities that are in Canada are somewhat different than the way that timber is priced here in the Northwest.

Mr. **Bonker**. Well, my only comment, Mr. Myhr, is I thought that Weyerhaeuser has an unblemished reputation for support of free trade, and for that you are to be commended, but I am finding that many of the larger wood products firms who in the past refused to support a petition that went before the International Trade Commission pursuant to the Trade Act provisions on countervailing duties now are expressing alarm over the growing percentage of the U.S. market that is going to Canada. And this poses a real dilemma for Chairman Gibbon's committee, because on the one hand everybody on the panel, almost everybody, is committed to free trade. On the other hand, when a country does consistently engage in subsidies, in whatever form, that does constitute an unfair advantage which gives that industry a more favorable position in our market.

And again I will have to say as a Congressman from a district that is heavily dependent on this industry and going through some painful adjustment times, this has to be a mighty big concern. I will continue to support Weyerhaeuser in its efforts on reducing tariffs, but I would hope that they would look a little more favorably upon this growing problem in our domestic market.

Thank you.

Mr. **Myhr**. Thank you.

Chairman **Gibbons**. Don, you have a point.

One of the things in the trade remedies bill that we are trying to get at this time is sophisticated delivery of injurious subsidies. The subsidies, you know—as the tariff barriers have gone down, on the other side of the seesaw or the equation the subsidies have gone up to make other industries more competitive outside national boundaries.

I don't think that we can put an end to subsidies, but we can act where that subsidy is injurious to a competitive industry in this country. And that is the whole thrust of our trade legislation this year.

Now, it is a very difficult thing to get at legislatively. And it is very difficult to describe, but essentially we are trying to level the playing field, so all of us are playing by compatible rules. The test of that compatability is: are your practices amounting to subsidies that are injuring us? Perhaps we ought to sit down and have a joint hearing with the members of the Canadian Parliament on this question. We cooperate with the Canadians and work together with them. Maybe that is something that we could do in the future, sit down with the members of the Canadian Parliament—I know a number of them just north of the border here—and perhaps have a joint hearing and see what we can work out in that area. I think it would be most productive if we did. It would perhaps remove some of the distrust and some of the suspicion about what is going on on both sides of the border in this particular area.

Mr. **Myhr**. Might I comment on that, Mr. Chairman?

Chairman **Gibbons**. Sure.

Mr. **Myhr**. I think the issue that we are raising is that we believe that unilaterally imposed sanctions by the United States would not be in the long-term interests of our trading relationship with Canada. As we commented earlier in the statement, any types of negotiations that can take place between any of our trading partners as opposed to just trying to impose some kind of activity upon them is in everyone's best interests.

Mr. **Bonker**. I just might comment on that, Mr. Myhr.

Sometimes filing a petition and raising the issue really helps to enhance our trade position on a product like we are discussing. In the District of Columbia, there is so much happening, it is hard to get everybody's attention. And I think by filing the petition, which represented a lot of work and a great deal of expense by the petitioners, at least we got the attention of Mr. Brock and others, and he has promised to me that he would take up this matter with the Canadians.

I agree, wherever we can negotiate successfully to lower subsidies or tariffs, that ought to be the course of action, but oftentimes you have to resort to other activities, especially if your industry is being heavily impacted as obviously is the case of a lot of smaller and medium-sized companies, where their only course of action is to pursue the petition.

Chairman **Gibbons**. Don Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

Thank you, Mr. Myhr, for your testimony. I would like to talk a little bit about the subject that you have been discussing with Mr. Bonker.

You say you oppose unilateral application of trade restraints. I think the experience is fairly clear with the Japanese. You pointed out the difficulty in getting them to reduce their tariffs. In a lot of areas, the Japanese talk a good game, but they are extremely slow to respond in a positive way. I am just wondering how patient you think we ought to be with the Japanese, or the Canadians, if there is a similar pattern there—I am not sure if there is. Do you think if there is injury being caused to our domestic industries by the Japanese—or any other country—and the Japanese are not responding, or taking a very long time to do so, that we have to be patient through that whole process, or does there come a time when we have a right or even an obligation to pursue unilateral action?

Mr. **Myhr**. Well, I think that I agree with you that the Japanese are very patient, very cautious, and very careful. I think we have to be the same in dealing with them. I think we have to be very, very careful to understand, to make sure what the cause is of any type of alleged injury that may be taking place.

I was reading over the weekend—I don't have it with me here—Secretary Brock's report. In that report, Special Trade Representative Brock points out that we have to look pretty closely at what we are talking about, about how efficient our industries are here in the United States. I think that gets back to the point I was trying to make in my statement. We really have to do everything we possibly can to stay competitive. It is a really tough ballgame. And it is going to be, I think, tougher as we look out into the future. We have had the benefits of having this very large domestic U.S. market. But we are having to move out of that. Fortunately, here in the Northwest we have been forced to export by the nature of the products we produce and the economics of the situation. It costs us, for example, a lot to ship heavy commodity forest products to the eastern part of the United States. We cannot do it here in Washington.

What we do is ship them overseas, but we have worked at being competitive. Every part of our Nation has to work to be competitive.

Mr. **PEASE**. Mr. Myhr, I seem to hear you saying, not in so many words, but at least implying, that the mills in Mr. Bonkers' district which are losing their market share and having to lay people off and so on are really uncompetitive, and that that is the problem, and not any predatory practices on the part of the Canadians. Am I reading you correctly?

Mr. **MYHR**. Well, I didn't say that. And I don't know the exact situation with various individual mills. I do know that some mills are more efficient than others. That happens within Weyerhaeuser's own system. We have mills throughout the Northwest here and we have some in the U.S. South. All I am really saying is that the market mechanism is a pretty good mechanism. It operates pretty efficiently to bring competition into the market or take it out when you cannot make any money.

Mr. **BONKER**. Will the gentleman yield for a moment.

Mr. **PEASE**. I would be happy to.

Mr. **BONKER**. There are a variety of reasons why the small- and medium-sized mills are having difficulty, not the least of which is the Canadian imports. And that subsidy comes in the form of stumpage prices as well as transportation costs, but beyond that those mills are dependent on Federal timber. They don't have their own private ownership in many cases.

A few years ago when stumpage prices were exceedingly high, they put in their 3-year plan on timber and now they are stuck holding these high-priced logs with a low market price. During a time of recession and all these economic problems, they don't have the capital so vital for automation and updating their equipment. Weyerhaeuser does, through their resource base and through good management and so forth, and has developed over the years the capital necessary to accomplish that, but for small- and medium-sized mills don't have $5 million to $10 million to invest and they are not going to meet that competitive challenge. So we have to deal with each of these problems. The Canadian factor is one area where we can and should be supportive.

Mr. **CHANDLER**. Will the gentleman yield.

Just to underscore that point, I certainly don't want, especially you, Congressman Pease, to leave with the feeling that there is an inefficiency among the smaller mill operators. There were two issues a few years ago. One was the Japanese continued to say, "If you don't cut to our specifications," and I think it would be fair to say, Gus, most of the mills you represent do now cut to Japanese specifications. And that took a fair amount of capital to bring that about.

The second thing was the question of efficiency. And I can name at least half a dozen mills that I have personally visited where millions of dollars have been invested to bring about a greater efficiency. And they compete very effectively with the Japanese, but when you have 15 percent tariffs thrown up, it doesn't matter how efficient you are, you are simply not going to be competitive in that market. And I think Weyerhaeuser has indicated to me it is far more profitable to sell logs than it is to sell finished products, which is a tragedy for us here, because in the small county I grew up in, you lay off the night shift at Mount Everett Lumber, and that has a devastating impact on that community. Whereas in this Seattle area, a small layoff like that is significant, but out there those are communities devastated by that.

Mr. PEASE. Mr. Myhr, you have stated a classic position for free trade in your testimony. You say there may be short-term sacrifices or disruptions that must be accepted, but over the long term they surely are more than balanced by the benefits of free trade, including better product availability, lower prices to consumers and end users and a higher standard of living for all nations. There have been some recent studies just in the last year which have shown that when Americans lose their jobs because of import penetration, they generally lose their jobs in unionized higher wage industries. And that when those jobs are replaced, those workers get other jobs, they are getting jobs in low-wage industries. So that in addition to the price of unemployment, at least temporary unemployment, which is paid by those workers, and which surely is not insignificant for them, there seems to be documented a shift in our society away from the manufacturing area, where wages are fairly high, and into hamburger stands and video game arcades and that sort of thing where the minimum wage is more likely to be the norm.

In your obvious devotion to the general principle of free trade, would you be willing to grant the point that we may be achieving a higher standard of living for all nations, but the possibility exists that we are going to be lowering the standard of living for a lot of Americans?

Mr. MYHR. I guess by way of comment, again it is in USTR Brock's report, more and more workers are moving into the service industries. I think what we really need to do is to help focus on education with our young people. It is the future area we really have to focus on, focus on the young people, make sure that they are ready to move into high technology programs. We have concerns about the quality of primary and secondary education. I think—we also have to understand we get many benefits from inexpensive goods from abroad as well. So you have to think about all these aspects. It is very difficult to categorize any of this material very simply, as we all know.

Mr. PEASE. Well, you would like to focus on the younger people. I continually try to cause this subcommittee to focus as well on the worker who is 40 years of age, 45 or 50.

Chairman GIBBONS. That is young.

Mr. PEASE. That is true. The worker who has worked for 20 or 25 years in a steel mill in Lorain, OH, or a paper mill in the State of Washington, finding himself without a job, and not very easily able to pick up stakes and move out of the State and find a low-paying job someplace else.

You do state in your testimony that "We need better training and mobility for our work force." What role do you think there is if any for the Federal Government in providing better training and mobility for those in the midage, midlife range who get laid off and lose their jobs forever.

Mr. MYHR. Well, I certainly would feel that we have to focus on providing continuing opportunity for those people, so that if they lose a job in one field, perhaps they can go back and obtain some education, go back at a community college level or a type of college level education which maybe fits their particular needs. There are several programs that have been ongoing of this type that the Government has supported. Those types of programs have to continue.

Mr. PEASE. Weyerhaeuser would support those programs?

Mr. MYHR. To tell you the truth, I cannot give you the full details about these programs. I am aware of them in very general terms, but we certainly support as a company educational programs for our people and we feel that any types of programs that give people opportunities to learn new skills and new jobs are beneficial to not only the people involved, but to the Nation as a whole.

Mr. PEASE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Lowry.

Mr. LOWRY. I have some observations. I will try to make it a question.

I appreciate your comments on the effects of the high value of the dollar, the exchange rate. And your comments, your belief it is primarily because the interest rates in the United States are so high. What effect do you think the size of the national deficit has on that?

Mr. MYHR. I really don't know the answer to that question. I will venture my opinion, that high deficits help cause high interest rates.

Mr. LOWRY. If we can't get the business community of this country to start getting a little more definitive than that—I think you do an excellent job—a little bit more definitive on that, what causes $200 billion deficits, I wonder if we are ever going to get around to doing something on where we are with the problem on the exchange rate of the dollar. We never get an answer to that question.

The Federal Government taking $200 billion out of the credit market, does that have an effect on interest rates?

I don't mean to——

Mr. MYHR. This is not my area, Congressman Lowry.

Mr. LOWRY. But you can comment on it. We are so privileged to have companies as good as Weyerhaeuser—I do get very frustrated when we look at the fact—I mean a statement that I think makes sense, that refers to the extreme problem of the exchange rate of the dollar in our international trade sales, and the exchange rate being caused by high interest rates, and then what causes high interest rates when we have deficits of $200 billion. Somewhere we have to work along to getting to what is causing this, because then the next question—I thought you were going to say the size of these deficits must have quite an effect on high interest rates.

Then I was going to ask if a military budget that is a little more than twice as high in 1985 as 1980 have anything to do with the deficit. The fact, Mr. Chairman, is that the request, the 1985 military budget is $299 billion. In 1980, it was $145 billion; $145 billion to $299 billion. And we have a deficit that is $200 billion. What effect would that have on the exchange rate and our problems with the strong dollar and the fact that plywood or wood is twice as high with the lira, cost twice as many lira? Would there be a relationship?

Mr. **Myhr**. I am not sure I understand the question, except that we——

Mr. **Lowry**. Well, as I was just listening, how much more—does it take twice as many lira to buy the Weyerhaeuser product now than it did?

Mr. **Myhr**. That is correct.

Mr. **Lowry**. And that is because of the exchange rate?

Mr. **Myhr**. Primarily.

Mr. **Lowry**. Primarily because of the exchange rate. The exchange rate is primarily because of the high interest rates?

Mr. **Myhr**. I would say we think that is an important part. Certainly not the only thing.

Mr. **Lowry**. Not the only one, but a major part of it. Certainly an important part of it. The high interest rates. And so it comes back, what effect does the deficit have on higher interest rates.

Mr. **Myhr**. I am not quite sure where you are trying to lead me here.

Mr. **Lowry**. All of these questions really are not very good if you don't get to the effect of the deficit on interest rates, and how do we get to the deficit.

Mr. **Myhr**. By spending too much money.

Mr. **Lowry**. By spending too much money and not having enough revenue, a combination of the two. So the policies that have given us a $200 billion deficit must be pretty directly related to the problems of the exchange rate, the value of the dollar, and not being able to sell products, because of the exchange rate; right?

Mr. **Myhr**. Well, these things vary over periods of time. The exchange rate is not going to stay the same as it is right now, but certainly in a short period of time we are concerned.

The exchange rate is caused by many, many different factors. We tried a while ago to make some kind of predictions of exchange rates. This was almost 10 years ago. A very, very difficult thing to do. There are many, many factors involved in that, but I will go back to the statement that high interest rates in the United States certainly don't help the situation.

Mr. **Lowry**. Thank you.

Chairman **Gibbons**. Mr. Swift.

Mr. **Swift**. Thank you, Mr. Chairman.

You mentioned when you were talking about problems of the U.S. wood products industry, particularly with regard to Canadian imports. You said the strength of the U.S. dollar was one of the reasons for the problems, that overproduction was a reason, interest rates, and the fact that we are building houses smaller than we used to. I was intrigued that in listing all the reasons you didn't list that the Canadian Government in effect subsidizes their wood products on the stump. I think all the four you listed are good reasons. I think they should be factored into any analysis. It surprises me you eliminate one of the key things in issue before a committee such as this, and that is, are our trading partners being fair with us.

It seems to me if we continue to sit here and mumble a free trade mantra, which I think all of us accept in this theory, but do not have some definite policy and strategy on how we make it work in practice, we just sit here and get stomped on. I think the Japanese do it to us all the time.

I am also very interested how bigger companies always manage to very subtly make the case that small companies are inefficient, are probably going to have to go away anyway, so don't worry about them. Yet all the years that we fought the battle on log exports around here, one of the things that the people said was that it is all right to ship the logs, that the Japanese have a different way of doing it. The Japanese have all these little cottage industries over there in which a family sits down and make each 2-by-4, each stick of wood is hand and custom cut. Wildly inefficient. Terribly expensive, and yet we are making the argument at the same time that our small mills are going to have to sink below the waves at some point because they are no longer efficient.

Now, come on. I guess the question is at what point, if we are to have effective fair trade along with a free trade policy, do we let people know that we will impose unilateral sanctions? I understand how when you start doing that you are starting a spiral downward, but when you signal the world that there are no circumstances under which we will impose sanctions, what possible incentive are you giving our trading partners to negotiate in good faith with us fairer agreements on these situations when they come to issue? Where is the point at which you think we have to say, "Look, we are willing to turn the other cheek, but we have run out of cheeks and now we have to start talking seriously about what we are going to do if you won't cooperate in negotiations"?

That is the question. Where is that point?

Mr. Myhr. I would like to go back to an earlier comment. I don't think I said small mills are inefficient. I would like to at least point that out. I don't say which ones are inefficient. I didn't say any relation to size whatsoever. Some big mills are efficient, some big mills are inefficient, some small mills are inefficient, and some are very efficient. In other words, that was not the point that I was trying to make.

In terms of sending messages, I think as pointed out earlier, I think we have to be very careful of the message that we are sending, that we may threaten and we may have to make good on our threats. And if we have to make good on our threats, maybe that forces us in the downward spiral. That is not the direction we want to go.

Mr. Swift. One of the things I find interesting about this particular administration is that it talks tough on foreign policy and it is a pussy cat on trade policy. Maybe if we could take some of the bellicosity in their foreign policy and move it to trade policy they would be able to give Ambassador Brock something to carry into negotiations and come out with something good for the American industries. But if we basically send the signal that ultimately "We will not defend ourselves if you are unfair to us," then why in the hell do you think anybody is going to be interested in being fair to us?

Mr. MYHR. I think we are already sending quite a few of those messages; aren't we?

Mr. SWIFT. But your testimony is suggesting that is a very dangerous thing to do. I am suggesting you are probably right, but what is the alternative? What is the alternative to be able to get the kinds of agreements we have a right to get in a negotiated policy if we in effect say we will never ultimately pull the plug on them? Maybe the answer is a little easier to come by when you are one of the smaller companies that don't have quite as long a leash as some of the big companies in this country.

Thank you.

Chairman GIBBONS. Thank you, Mr. Swift.

Mr. Bonker.

Mr. BONKER. Mr. Chairman, before Mr. Myhr leaves I hope he doesn't have the impression that we are terribly adversarial here. I think it is recognized that Weyerhaeuser has a unique position in international trade. It has a longstanding global vision and the rest of the industry is trying to cope and catch up. And they are terribly sensitive, I think, to some of these problems.

In other words, I am a little concerned about the position on Canadian imports. I wish it would be more of a neutral position than one of opposition to any way of dealing with the problem, but——

Mr. MYHR. Maybe if I could comment again. The issue is a problem. Someone talked about having discussions with the Canadians. And the question perhaps is one on timing. And having discussions, having negotiations, having ongoing discussions. These are always in everyone's best interests. We certainly advocate any kind of discussions that can take place on all sorts of trade issues.

Mr. BONKER. As the chairman has wisely suggested, we could have a joint session with our Canadian counterparts to take up the issue directly with them.

Chairman GIBBONS. I think it would be very interesting. They would probably come to no unanimous consensus discussing for the Canadians, but at least we would get all the cards out on the table and deal with it more intelligently.

Members of Congress here from the Northwest have a hard time interpreting all of this to us who live some distance from this area, but I must say I understand it a lot better having heard the testimony so far today.

Thank you very much, Mr. Myhr, for coming here. We look forward to visiting some of your facilities tomorrow.

Mr. MYHR. We look forward to having you tomorrow. Thank you for the opportunity to express our views.

Chairman GIBBONS. Fine.

Mr. Kuehne is our next witness. He represents the Northwest Independent Forest Manufacturers Association.

Mr. Kuehne, we welcome you here. You may proceed as you wish.

STATEMENT OF M.J. "GUS" KUEHNE, EXECUTIVE VICE PRESIDENT, NORTHWEST INDEPENDENT FOREST MANUFACTURERS

Mr. KUEHNE. Thank you, Mr. Chairman.

I am Gus Kuehne. The Northwest Independent Forest Manufacturers is an association of independent, small, medium-sized mills here in the State of Washington which by and large manufacture forest products. They, for the most part, depend on Federal forests or State timber and private timber as their raw material source. By and large they are not large landowners. And they look to the timber supply from national forests predominately. They then manufacture these into products and sell them both into the international markets and the U.S. domestic market.

Therefore, international trade is of vital interest to our member companies. We have imports that certainly are detrimental and exports that are detrimental, but we also have opportunities as far as exports are concerned.

The forest products industry in the Northwest, I think, including even the large companies, could characterize this decade of the eighties as the worst depression in the last 50 years.

Speaking as far as the independents are concerned, we have as many mills closed today in western Washington as we did have in the worst part of 1982. I do not see that situation improving. There are a dozen mills, rather major employers, companies employing from 100 to 400 employees, that are closed right today here in western Washington, throughout many of the small communities where they are the most significant employers.

We have many problems. On the market side, high interest rates which were mentioned, and how that affects housing. Canadian lumber, I would say Canadian lumber imports is probably the largest issue affecting markets. Also, the tariff and nontariff barriers that have been described previously in Pacific rim countries—I would mention policies in the People's Republic of China—are favoring logs as well as those in Japan.

Another issue is the Jones Act. We have virtually no trade with the East companies now because of the restrictions of the Jones Act in lumber sales.

On the timber supply side, which is, of course, our major cost side, and some 60 percent of our costs come from the price of our raw material when it is at the mill, we have overpriced Federal contracts that were entered into in the late seventies when market predictions were that the decade of the eighties would be the golden age of single family housing, and certainly that hasn't occurred. Those contracts still exist and are a burden over our heads, and caused millions of dollars in losses.

Also we have log exports which drive up our raw material costs. They have increased from 10 percent of the timber harvested in the State of Washington in the middle sixties to over 40 percent in the last 10 years. All the timber harvested is exported as logs, and that helps to keep our raw material prices artificially high compared to what the sale of our products is.

Also there is a fourth factor which is the decline that is occurring and will continue over the next four decades from the private lands, both the industrial and nonindustrial private lands in the Northwest.

These factors have combined, the factors of declining markets and unrealistically high timber prices, to cause us a great depression.

I just recently did a survey of independent companies in western Washington which depend on Federal timber for their raw materials supply. Sixteen companies responded to that survey which is, I would guess, over half of the companies that participate in a significant way in that timber purchase. They were in business for an average of 29 years. That is, they are well established companies, handed down from family to family, most of them in the second generation now. Those companies lost an average of $56 million in the last 4 years.

Now, that is over half of their net worth. Fourteen of the sixteen companies over the last 4 years combined had losses. I would venture a guess that most of those, if something is not done dramatically, the problems both on the market and timber supply side will cease to exist in the next year or less.

Let me focus in on the Canadian lumber issue. Also I should say what has been said about Canadian lumber could also be said about siding and shake and shingle imports, only in the case of shake and shingles it has been much more dramatic, and they have a higher percentage of market share than do even the lumber producers.

The Canadians have increased market share in the last 9 years consecutively. In 1975, Canadian imports amounted to 19 percent of the lumber consumed in the United States, and that has increased to 33½ percent last year.

They are the dominant producers as far as price goes in the U.S. market. Because of the system in which Canadian timber is sold, it is basically owned by the Provinces and allocated to mills on a negotiated appraised basis. The appraisal is negotiated, and this timber is offered to the mill on a continuous basis without competition.

Mr. **Bonker**. May I ask a question, Mr. Chairman?

Gus, you made a statement in your prepared text that the stumpage price was running anywhere from $1 to $5 per thousand board feet. I find that impossible to believe. Has that figure been documented and if so, how could the Department of Commerce ever determine that a subsidy did not exist under those circumstances?

Mr. **Kuehne**. I have no explanation for Commerce's action. But I would provide absolute documentation for any of the figures that I have put in my report.

Mr. **Bonker**. That is almost getting the timber free.

Mr. **Kuehne**. It essentially is, yes. In fact, in some cases, there were no payments in some of the Provinces. I have heard statements by the Canadians that even if they had to pay them to take it that they would to maintain employment. I don't know if they would go to that point. I don't have anything documented that they have.

The $90 figure as far as the United States is the average price of timber sold on national forest lands in 1983. That is a published figure.

Mr. **Bonker**. That is market value; is it not?

Mr. KUEHNE. Yes.

I wanted to say that the Canadian system is basically a system to maximize employment and the U.S. system of selling the national forest timber on a competitive basis is one to maximize income. We have those two right across an artificial line of a political boundary that separates U.S. Northwest from British Columbia—that is what causes the problems that we have.

I wanted to thank the subcommittee chairman for his action a couple of years ago in asking the International Trade Commission to study the differences in Canadian stumpage practices and those here in the Northwest, along with the Senate Finance Committee.

I would like to read to the subcommittee the conclusion of that report.

The ITA in their report published April 1982, stated:

> It would appear from material and data collected during the course of the investigation that the primary reason for Canadians increasing market share is the lower cost of raw material for Canadian lumber producers.

That essentially was the major finding of that entire report.

Let me get into what that triggered on our part. After the filing of that report, a coalition of lumber producers from throughout the United States, including many in the South, joined with the independent companies in the Northwest and a company of large companies in filing a petition on Canadian lumber imports, shake and shingle and fencing material. The ITC found in their preliminary investigation that there was a material injury of the U.S. industry in all three cases. The International Trade Administration, that is that part of it in the Department of Commerce, did not find that there was a subsidy. I cannot explain why they did not find that. I wish this committee might ask them that, or somebody else might ask them that. I have asked them how, when U.S. mills were found to be more efficient on average, when we have more productive labor, and when we are closer to our own markets obviously, how it is then if there wasn't a subsidy that the Canadians have an increased market share.

And Secretary Baldrige has failed nor has any of his staff responded to that question.

I would say that after the decision which occurred in June 1983, just a little over a year ago, the Canadians breathed a sigh of relief and began operating at full capacity in late 1983. They set for 1983 a record level of Canadian exports into the U.S. market, even exceeding those when the United States had over 2 million starts in the late seventies. They had also set a record as far as market share is concerned. Canadian lumber rose to 33.5 percent of U.S. consumption. So both in volume terms and in terms of market share, they did.

Chairman GIBBONS. Gus, let me interrupt here. I see you endorsed the legislation we proposed in that area.

Mr. KUEHNE. Yes.

Chairman GIBBONS. Is is exactly to try to get at these indirect, but sophisticated, subsidies, yet very injurious subsidies, that that legislation was proposed. It was with your case in mind and cases in Mr. Long's area and mine that we came up with this. It is a difficult area. I find American business people split all over the countryside on that issue, on the pricing, dual pricing of raw materials, or the subsidized pricing of raw materials.

I think the Department of Commerce has taken a very, very relaxed attitude toward that. Unfortunately, they still follow that attitude, but we are going to try to change their minds by changing the law on that subject. That is the objective of our legislation.

Mr. KUEHNE. I very much appreciate that. I think that pricing of natural resources is definitely a subsidy. Certainly it has a greater impact than do some of the loans or grant type of things that traditionally have been determined to be subsidies by Commerce or whatever.

Chairman GIBBONS. Yes.

Mr. KUEHNE. I would suggest to you that in addition to the provisions that are in the law, it might also be necessary to look at putting the responsibility for this in the International Trade Commission rather than leaving it with the Department of Commerce.

Chairman GIBBONS. Well, that has been suggested by other people also. Frankly, I am trying to move some of these areas of international trade into more an area of law than an area of negotiation and policy. I always find resistance from every administration, every time you try to do that, but I think that as we progress in a more open, competitive trading system, that everybody needs to rely upon what the law is, not on what the political input is in these cases. I don't mean political input in any pejorative manner, but the international political input has sometimes been used to override what were obviously, in my opinion, subsidies. And that is something we can give some consideration to.

Mr. BONKER. If the chairman would yield.

I saw that comment in your statement, Gus.

I would not support it for this reason: I do think the administration necessarily needs more discretion in making these determinations. In the case of many of these Latin American countries, for instance, that are trying to export their way out of their enormous debts which could well endanger our own financial system, you might find and document a case of dumping or a case of subsidies and if that resulted in an automatic countervailing duty or whatever, it does not take into consideration the precarious position of these countries. And I do think you need some room to allow political considerations in the international sense so that we don't cut off our nose and spite ourselves.

While you received a favorable ruling by the ITC, and that was reversed by Commerce, sometimes it can work in your favor. So I would argue against putting all of the responsibility for decisionmaking in the International Trade Commission and allow the administration to maintain some discretion on these matters in the future.

But I think the provisions of the remedy bill which make more explicit congressional intent on what constitutes a subsidy or targetting or whatever, are certainly moving us in the right direction.

Mr. KUEHNE. I certainly agree with that. I do appreciate the subcommittee's work in that regard.

Chairman GIBBONS. Gus, we are going to put your entire statement in the record.

[The prepared statement follows:]

STATEMENT OF M.J. KUEHNE, EXECUTIVE VICE PRESIDENT, NORTHWEST INDEPENDENT FOREST MANUFACTURERS

Mr. Chairman and members of the committee, I am M.J. Kuehne, Executive Vice President of Northwest Independent Forest Manufacturers. NIFM is a forest products association of approximately 40 independently owned sawmills, plywood plants, veneer mills and shake and shingle mills in Washington State.

I very much appreciate the opportunity to address this committee and acquaint you with the problems the independent forest products mills in the Northwest are facing and to particularly draw your attention to those problems and opportunities related to International Trade. The small and medium-sized companies who manufacture wood products in the Northwest are acutely aware of the problems which exist and the opportunities that may be created by International Trade. The companies I represent are purchasers of Federal, State and private timber, which they manufacture into a variety of lumber, veneer, plywood and shake and shingle products for both the domestic and to an increasing degree, International markets.

Over the past 4 years, small and medium-sized forest products manufacturers in the Northwest have suffered the most devastating economic disaster of at least the last 50 years. If conditions do not improve, historians will record the decade of the 80's as that of the demise of independent forest product manufacturers in the Northwest.

We continue to be plagued by not only declining markets for our products but significant short and long-term timber supply problems. On the market side, we see the forecasts of the late 1970's where economists unanimously were predicting the 80's as "the golden age of single-family housing," turned sour by high interest rates and a decline in government support for new housing programs. Equally as significant to U.S. forest product manufacturers as the failure of predicted strong demands to materialize has been the tremendous increase in Canadian lumber imports which have steadily grabbed an increasing share of the U.S. market and have retarded expansion of lumber exports into foreign markets. Other market problems include the failure to remove tariff and non-tariff barriers imposed by Japan and other Pacific Rim countries. In addition, the Jones Act continues to eliminate Northwest lumber from the waterborne trade to the east coast.

At the same time, timber supply problems are holding up our raw material costs above what can be justified based on the selling price of our products. These problems include over-priced Federal contracts entered into during the late 70's and early 80's which are economically impossible to operate with the dramatic decline in lumber prices. The increasing pressure placed on timber supplies from private and State lands in Washington State by the high levels of log exports, which have increased from 10% of the timber harvested in the mid-60's to over 40% in 1982 and 1983. Passage of the Washington Wilderness Bill, which will cause a permanent reduction in timber offerings from Federal lands, the major source of timber supply for independent mill owners. The decline which will occur over the next four decades in timber harvested from private lands as the result of the high level of harvest of the 60's and 70's from the large industrial ownerships. These problems of declining markets and unrealistically high raw material costs have combined to result in the disaster we find ourselves in today.

The most accurate index of lumber price in the Northwest is that produced by Western Wood Products Association from actual invoices of lumber sales by mills in Western Washington and Western Oregon. This index includes a wide variety of lumber products produced by these mills. The actual price shown for Douglas fir lumber declined from $341/MBF in October of 1979 to $233/MBF in May of 1984. Hem-fir lumber declined from $253/MBF in September of 1979 to $198/MBF in May of 1984. Two by fours and other dimension lumber has suffered even greater declines but again I point out these are averages taken from actual invoices of mill sales. When you take into account inflation that has occurred over the four year period, the real lumber price decline is neaarly 50%. Attached is a chart showing these lumber prices, see Exhibit 1.

Several weeks ago I did a survey of small business forest products companies in Western Washington which are primarily dependent upon Forest Service timber. Sixteen companies responded to the survey. They had been in business an average of 29 years. These sixteen companies suffered losses of $56.6 million during the past four years. Only two companies posted a profit during the past four year period. On the average, sixteen companies have lost over one-half of the net worth which they had accumulated over nearly 30 years of operations. Attached for your information is a copy of this study, see Exhibit 2.

Now, with this background I would like to get into the problem of Canadian lumber, siding, shake and shingle trade. Unquestionably the one market issue which could do more to improve the dismal condition of the forest products industry would be to eliminate the dominate position that Canadian producers enjoy in the U.S. market. The major reason Canadians are dominant producers in the U.S. market is because they are allocated provincially-owned timber on a non-competitive basis at as low a price as is necessary for them to continue to operate. In the Northwestern U.S. on the other hand, Federal and State timber is sold by competitive bid at oral auctions for timber contracts which normally last from 2 to 5 years.

The Canadian system is designed to maximize employment while the U.S. system is designed to maximize income from the sale of timber.

As you may recall in December of 1981, the Chairman of this Subcommittee and the Senate Finance Committee requested that the U.S. International Trade Commission conduct a study "on the conditions relating to importation of Canadian softwood lumber into the United States as well as to compare the competitive status of the U.S. and Canadian softwood lumber industries." The conclusion reached by the ITC as published in April of 1982 stated, "it would appear from material and data collected during the course of the investigation that the primary reason for Canadian's increasing market share is the lower cost of raw materials for Canadian lumber producers." After reviewing this study, a Coalition of U.S. Lumber, Shake & Shingle and Fence producers filed a petition with the U.S. Department of Commerce and the International Trade Commission for a countervailing duty on lumber, shake and shingle and fence products. To make a rather long and sad story short, in October 1982 the ITC found in its preliminary investigation that the U.S. industry was "materially injured" but the Commerce Department in May 1983 failed to agree that Canadian actions constituted a "subsidy." Though I must say, they failed to explain either in their report of their investigation or in later correspondence how it is that the U.S. industry is losing market share to Canadian imports . . . when our mills are more modern and efficient . . . our labor is more productive . . . and we are closer to our markets. If they do not subsidize timber costs or transportation costs, the only two other major costs, we would like some explanation for their success.

The filing of this Countervailing Duty Petition was expensive. It cost the U.S. industry nearly $600,000. We were outspent 5 to 1, however, by the Canadian industry. In addition, the Canadian industry received valuable support from the provincial governments and the Canadian government in both their lobbying activities and technical assistance. Following the final negative finding on the CVD in June of 1983, the Canadian industry breathed a sigh of relief and disregarded any restraint that may have existed. In 1983, Canadian imports set a new all-time record volume of 11.947 billion board feet and gained a record high of 33.5% of U.S. consumption. I predict that during 1984 Canadian lumber imports will exceed 12 billion board feet establishing a new record high. I also predict they will increase market share again in 1984, making 9 years in a row of Canadian lumber gaining market share in the U.S., see exhibit 3.

There is no way small and medium-sized forest product manufacturers here in the Northwest can reverse this growing dominance of Canadian lumber by modernizing our facilities, decreasing labor costs or becoming more effective in marketing our products. The price we pay for standing timber is approximately 30% of our total operating costs. Even today, stumpage prices in the Northwest are averaging approximately $90/thousand board feet compared to from $1 to $5/thousand board feet paid just across the border in British Columbia. There is no way to overcome the tremendous advantage this gives Canadian producers in both the U.S. domestic and International markets.

We believe that it makes no sense to have countervailing duty law that purports to deal with foreign countries that subsidize the export of products which materially injure the U.S. industry, if it doesn't deal with what can be the most significant subsidy of all, the pricing of natural resources. Therefore, we wholeheartedly support H.R. 4784, the Trade Remedies Reform Act, authored by Chairman Gibbons and which passed by this Subcommittee and the Ways & Means Committee. The type of subsidy should not be restricted to simply direct tax or financial subsidies, which in many cases would be far less significant than subsidizing the natural resource provided by the government at far below its competitive fair market value.

I believe in the debate regarding this, those who oppose pricing of natural resources as a subsidy fail to understand that in addition to the finding of subsidy, countervailing duty law also requires a strict test of material injury.

If the Trade Remedies Reform Act is enacted into law, I believe it will be helpful to bring foreign countries to understand that the United States' policy in support of free trade also is a policy in support of fair trade. I would go one step further and recommend that in future consideration of CVD law, Congress places the full responsibility for determination of subsidy and injury within the International Trade Commission. The Department of Commerce is too engrossed in the political considerations of its determinations to fairly judge actions of foreign governments. For example, in the Canadian lumber case, Commerce not only denied pricing of natural resource was a countervailable subsidy, but denied that the Canadians were subsidizing the price of timber, the natural resource being sold. Even the Canadian Trade Minister freely admitted that Canada subsidized lumber exports. Also, courts in British Columbia have even determined the allocation of timber granted by the provincial government to forest products companies to be of tremendous value when they determined settlement of estates.

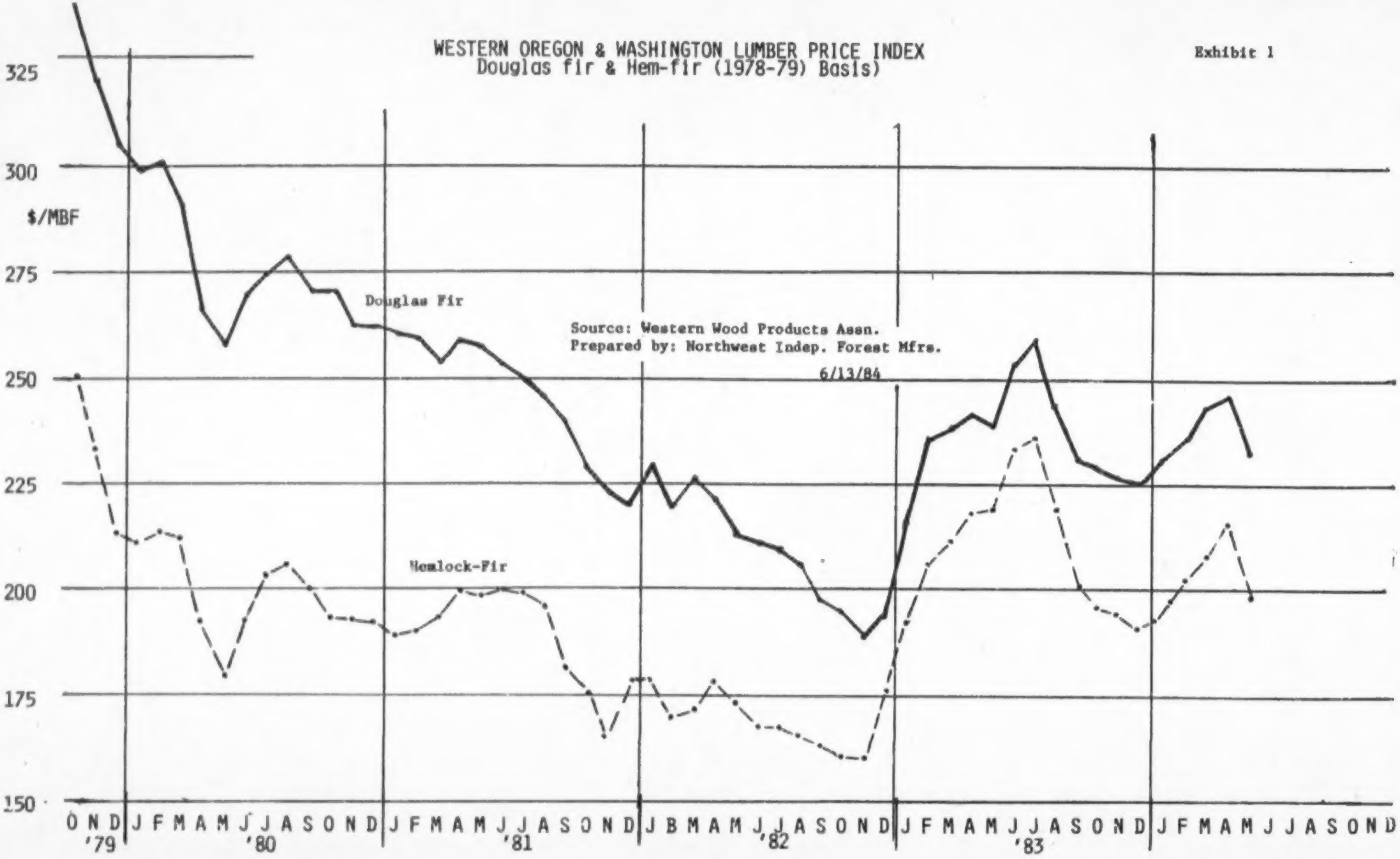
Recently lumber producers in the South and companies in the Northwest have written Secretary Brock asking the U.S. Trade Representative to begin formal negotiations with the Canadians on the lumber issue. I have met with Brock's assistant who looks after Canadian trade matters and discussed with him this possibility. His response was . . . we probably will have to do something about this because of the pressure we are getting from Congress. I got the clear impression from that meeting the USTR's only concern was to do essentially enough that they somehow reduced the pressure they receive from Congress on this matter. I am not optimistic that the current level of concern expressed that even formal negotiations will be conducted, let alone any negotiated solution. I believe only the real threat of legislation to place restraints on Canadian lumber, siding, shake and shingle imports will provide enough pressure to reach any voluntary solution.

I urge that this committee request Ambassador Brock establish formal negotiations with the Canadian government to bring about a fair sharing of the U. S. market between U. S. and Canadian producers. In order to further emphasize our concern, I urge that legislation be introduced and hearings be held to require a fair sharing of the U. S. market. Only through such pressure will the Canadian government and our government be likely to take any voluntary action.

We do not seek advantage over Canadian producers, we merely ask that we fairly share the U. S. market rather than be relegated to the position of marginal producers in our own market . . . a condition which means severe economic hardship or bankruptcy for dozens of Northwest companies, high unemployment in many communities and a tremendous strain on the economy of the Northwest.

Thank you for this opportunity to testify. I will be happy to try to answer any questions you have.

Exhibit 1



WESTERN OREGON & WASHINGTON LUMBER PRICE INDEX
Douglas fir & Hem-fir (1978-79) Basis)

Source: Western Wood Products Assn.
Prepared by: Northwest Indep. Forest Mfrs.
6/13/84

EXHIBIT 2.—SURVEY OF SMALL BUSINESS FOREST PRODUCTS COMPANIES IN WESTERN WASHINGTON WHICH ARE PRIMARILY DEPENDENT ON FOREST SERVICE TIMBER

(By Northwest Independent Forest Manufacturers)

Introduction: A survey of small business forest products companies in Western Washington which are primarily dependent on Forest Service timber for their log supply, was completed in April, 1984. Each company was asked four questions: (1) Years in business of current ownership, (2) Number of employees during normal operations, (3) Current book value of the company, (4) Net profit or loss during the past four fiscal years. The value of Forest Service timber under contract which was purchased prior to 1/1/82 was obtained from a report by Timber Data, Inc. of Eugene, Oregon prepared for the U.S. Forest Service.

Years in business: Sixteen companies reponded to the survey. They had been in business from a high of 43 years to a low of 7 years, the average being 29 years.

Number of employees: The companies responding had from a high of 450 employees to a low of 25 employees, the average was 185 employees.

Current book value: The highest current book value listed by a company was $21.8 million, the lowest −$2.4 million. The average was a +$3.5 million.

Net profit/loss 1980–83: The combined net profit or loss for the four fiscal years 1980 thru 1983 varied from a loss of $14 million to a profit of $1.1 million. The average was a four year loss of $3.5 million. The four year average loss amounted to a 50% decline in net worth for companies who had been in business an average of 29 years. The losses do not take into account Forest Service timber which is under contract but not harvested and paid for at this time.

Forest Service timber under contract: The value of Forest Service timber sales purchased prior to 1982 had a negative value for all 16 companies, losses varied −$0.7 to a −$20.9 million, the average was a −$7.6 million. Only four companies had current book values large enough to cover the negative value of Forest Service contracts. For the other 12 companies, the contract losses substantially exceeded current book value of the company. On an average for all 16 companies, contract losses were over 2 times current book value.

Summary: Small business forest products companies in Western Washington have suffered unprecedented losses from attempting to operate Forest Service timber sale contracts during the past 4 years. There is no way the majority of these companies can possibly operate the timber sales which remain under contract. They would suffer such large losses that banks would simply refuse to loan the companies the money, even if they wanted to complete the contracts.

FOREST PRODUCTS COMPANIES IN WESTERN WASHINGTON PRIMARILY DEPENDENT ON FOREST SERVICE TIMBER FOR LOG SUPPLY

[Dollars in millions]

Years in business	Number employees	Current book value	Net profit/loss 1980–83	Forest Service timber contract value[1]
43	450	−2.4	−$14.0	−$20.9
42	400	−2.0	−12.0	−17.9
39	300	−1.0	−11.5	−14.8
38	265	0.5	−6.2	−13.8
36	250	0.5	−4.0	−13.1
34	230	0.6	−2.3	−6.8
33	200	1.8	−1.5	−5.9
30+	150	2.0	−1.5	−5.7
30	150	2.2	−1.4	−5.5
29	150	2.7	−1.0	−4.8
29	120	3.5	−1.0	−3.1
25	80	4.0	−1.0	−2.9
25	70	5.0	−0.4	−2.6
16	60	7.0	−0.4	−1.5
8	60	10.0	+0.5	−1.2
7	25	21.8	+1.1	−0.7
Total, 464	2,960	56.2	−56.6	−121.2
Average, 29	185	3.5	−3.5	−7.6

[1] Based on information produced for the U.S. Forest Service by Timber Data Company, includes sales purchased prior to Jan. 1, 1982.

Note.—Responses from survey arrayed in numerical order of response to avoid disclosure of confidential company financial information.

EXHIBIT 3.—CANADIAN SOFTWOOD LUMBER IMPORTS AS A PERCENTAGE OF TOTAL U.S. CONSUMPTION

[In million board feet]

Year	U.S. mills	Canadian imports	Other imports	Total U.S. consumption	Canadian percent of U.S. consumption
1975	24,569	5,666	45	30,380	18.7
1976	27,608	7,906	45	35,558	22.1
1977	29,668	10,344	42	40,054	25.8
1978	29,623	11,764	77	41,464	28.4
1979	27,791	11,068	50	38,909	28.4
1980	22,831	514	25	32,370	29.4
1981	21,009	9,182	23	30,214	30.4
1982	20,272	9,091	28	29,391	30.9
1983	23,718	11,947	30	35,695	33.5
1984	6,320	3,086	10	9,416	32.8

Source: Western Wood Products Association "Statistical Yearbook of Western Lumber Industry, 1975–82" NFPA Finger Tip Facts," May 1984. Prepared by Northwest Independent Forest Manufacturers June 8, 1984.

Chairman GIBBONS. Gillis.

Mr. LONG. Thank you, Mr. Chairman.

I would only state, Mr. Kuehne, that your study, the recitation of the history of these 16 companies, these independent producers, is about as sad a financial story as I have read of any industry in my combined business and political career. This really is an extremely bad situation.

Mr. KUEHNE. It is unprecedented to my knowledge.

Mr. LONG. These are not fly-by-night operators. These are people who have been in business for 40 years. The shortest time any of them has been in business is 7 years. They have over the years done very substantial business, having employees, the smallest having 25 and the largest having 450. I think it is really a very, very sad situation.

Mr. KUEHNE. I would say, too, that I would match the efficiencies of that group of 16 companies with any mills of large businesses in the Northwest and believe that as far as mill efficiencies and management, they would come out even better. Many of them in the most difficulty are ones who have invested $10 million, $15 million in plant modernizations in the last few years. Interest rates not only do the things that Mr. Lowry had stated here, but also they increase the costs obviously of borrowing all of that money that hangs around their necks right now.

Mr. LONG. Thank you. I would think we would be interested in doing anything we can to help.

Mr. KUEHNE. Thank you.

Mr. BONKER. Gus, as you know, I fully support your efforts on almost all the issues that you are dealing with, but I do see some inconsistencies in your statement. One is the price fluctuation on stumpage that goes all the way from $325 to $350 per thousand board feet in the peak year of 1979 to 1980.

Mr. KUEHNE. It depends for what area. On national forests, I think it averaged more like $200.

Mr. BONKER. And now it is down to $90. So the price has come down rather dramatically.

Mr. KUEHNE. Yes. That is the timber purchased. Much of the 250 was never harvested and paid for and will never be even if the administration attempts to enforce it.

Mr. BONKER. So you are saying while the price has gone down rather dramatically, mills are still having difficulty because of timber they purchased 3 years ago at inflated prices.

Mr. KUEHNE. Yes. They have attempted to operate that, and that has caused much of their losses. Even today the $90 timber on an average is above what they operate.

Mr. BONKER. So in a normal situation U.S. mills are stuck with a stumpage price of around $220 or $230 per thousand board feet and Canada is now making available their timber at anywhere from $1 to $5 per thousand board feet.

Mr. KUEHNE. Yes. I know people who have done appraisals—building plants, for example, in Canada, say they don't even think of the cost of standing timber as a cost of doing business. It is just so insignificant it is just not thought of as part of their costs.

Mr. BONKER. Well, frankly, I don't know how you can compete under those circumstances. If the price is dropping, it seems to me the mills would be in a more competitive position than they were a few years ago, but because they are holding this inventory, they are stuck.

Mr. KUEHNE. Yes.

Mr. BONKER. I hate to raise this, but in order to be consistent myself, does not contract relief in effect constitute subsidy?

Mr. KUEHNE. I would say that it certainly—the Federal Government, if it wants to cut the best deal it can cut, will take and pass the contract relief bill that has been introduced in the House, because that is the best they are going to do. And in that report I have included here, you can see that no one, the Federal Government is not going to receive the $250 a thousand, because even if my members wanted to pay that, they don't have that kind of money and they cannot borrow it. So if you want to say, OK, what should the Federal Government do—it should, as any other seller would do, cut the best deal it can, and I suggest to you that that is the bill that is before it.

Now, whether that is a subsidy or not, under whatever definition, I don't see that it is.

Mr. SWIFT. Would the gentleman yield.

I would suggest that whatever it might be, whether it is a subsidy of some sort or not, it is certainly not similar to the Canadian policy which is to consistently and on a long term or permanent basis provide a subsidy on the stump. What the small timber products industry is saying, for this instance, at this point in time we need this specific kind of help which will end once that help that has been given rather than——

Mr. KUEHNE. It was provided in 1936 as well.

Mr. BONKER. Another point I want to raise, Gus, really for the benefit of the chairman and his distinguished colleagues, is your statement that in the process of filing a petition with the International Trade Commission, the industries represented in that petition had to put forth $600,000 to file that petition. I suppose that is money spent for consulting fees, attorneys fees, and who knows what else.

Mr. Chairman, I raise that because when this started, I got a call from a very small, almost mom-and-pop operation in Grays Harbor County, who wanted to file a petition all by themselves. I knew the ways of D.C. were such that he would not get very far. So eventually Gus' organization took it on. It was too big for them to handle. So they had to get involved on a national scale, involving more industries in supporting this petition. So that is the first point.

It is outrageously costly for anybody who wants to run that process. It certainly is enriching many law firms in Washington, DC, we all know.

The second point that Gus makes is rather alarming. While our industries spent $600,000, the Canadians spent five times that amount, which was about $3 million?

Mr. **Kuehne**. Yes, and that doesn't include the help they got from their own Government.

Mr. **Bonker**. So here is the Canadian industry and its Government spending five times that amount fighting this petition. I wonder just how fair the process is, when you have the Canadians, who are well funded, spending so much money fighting a petition that was filed pursuant to our own laws. I am wondering if we are heading into a situation, Mr. Chairman, where you have put into place a really fine law to deal with these problems, but the Canadians and other governments will now go into D.C. and contract with the most expensive attorneys, many of whom previously have served in the ITC or in the Department of Commerce, and still have lingering influence, and make it nearly impossible for these small industries out here to participate in a process to obtain legal remedies.

Chairman **Gibbons**. If the gentleman will yield.

In our trade remedies bill, which is now up—it is one of the first bills scheduled for later this month, when we go back into session, we do try to cut down the time that these cases take as well as the expense of the cases. We are aware of the fact that it costs at least $125,000 to start a case in Washington, and that many industries just cannot afford that particularly when they are flat on their back with very heavy international competition facing them and overrunning them.

So we are trying to find ways of shortening the time, streamlining the process, and reducing the cost of the process.

We have not looked at the impact of other foreign governments paying part of the cost, although I assume that that is really a part of the problem, too, as far as American litigants are concerned.

Mr. **Bonker**. Another subsidy.

Chairman **Gibbons**. All right.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

Mr. Kuehne, I am a little confused about the difference in attitude between Weyerhaeuser and your association towards this Canadian subsidy situation.

Could you speculate for me at all as to why there would be such a dramatic difference of opinion?

Mr. KUEHNE. Well, let me say that we are manufacturers of products just in the Northwest United States—just in the State of Washington, my association directly—whereas Weyerhaeuser produces lumber products in British Columbia and buys a lot of timber from the Province of British Columbia, which is allocated to them. Whether that influences their thinking or not, I don't know, but it is reported to me that they manufacture about 500 million board feet a year up in British Columbia.

Mr. PEASE. To your knowledge, would Weyerhaeuser be able to buy timber for $1 to $5 a thousand board feet?

Mr. KUEHNE. Yes.

Mr. PEASE. The same as indigenous Canadian producers?

Mr. KUEHNE. Yes.

Mr. PEASE. Is there any such thing as a world market price for timber that you could compare with $90 that your members pay and the $1 to $5 which Canadian producers pay?

Mr. KUEHNE. No. There are only a couple of countries that export significant amounts of logs and there is quite a difference in quality and species and so forth. There is no—I would say that Canadians also restrict the export of logs into the United States. They severely restrict them. There is some flow of very low-quality material on occasion, but while they maintain the market should be open and unrestricted as far as the finished product, they do restrict it as far as the logs are concerned.

Mr. PEASE. That is a good point, Mr. Kuehne. It occurred to me that the acid test of whether there is a government subsidy is whether the Canadian Government is able to export—would allow the free exportation of those logs across the border so that your producers could buy them.

Mr. KUEHNE. In terms of moving from Vancouver Island or Coastal, BC, to our mills on the sound, on saltwater—it isn't real high. People have told me that when the permit is granted, that the price of the logs, the value of those logs in the water increased about 25 percent. In fact, in a couple of cases I know it was as much as $80 per thousand board feet that the price of those logs increased just by the fact they have a paper saying they can come into the United States. There is a strict——

Chairman GIBBONS. A paper from the Canadian Government.

Mr. KUEHNE. Yes. Allowing it to come in. That kind of an acid test we would like to see that tried and discussed with the Canadians.

The chairman's idea of having negotiations with the Canadian Government, much of the difficulty of that, though I think any kind of discussion or negotiation could be good—but much of the difficulty with that could be the relationships between the Provinces and the Federal Government. The Provinces have very strict control of the natural resources.

Chairman GIBBONS. They actually belong to the Province.

Mr. KUEHNE. Yes. The Federal Government plays a very minor role. So if you were to negotiate with or discuss or have hearings or whatever, you would not be having them with the parties that like could take the actions.

Mr. PEASE. Thank you very much, Mr. Kuehne.

Chairman GIBBONS. Mike.

Mr. LOWRY. Thank you, Mr. Chairman. I just want to thank Gus for his really helpful testimony.

Mr. KUEHNE. Could I answer one of Mr. Lowry's previous questions that he asked the representative from Weyerhaeuser?

I would say that the deficit problem in its relationship to interest rates is every bit as much a problem to the industry in total in this country as is the Canadian lumber import issue. It is equal in rank in my opinion.

I wanted to say that we, in effect, as an association, opposed the tax cut a couple of years ago. We had hoped that in a conservative administration that balancing the budget would be the No. 1 priority rather than cutting taxes, and hope that the Congress will look at balancing the budget as the No. 1 priority now, and the only way in the long term where you can bring inflation under control and on all of the other things necessary for this economy to survive in the long term.

Mr. LOWRY. Thank you, Gus.

Chairman GIBBONS. Al.

Mr. SWIFT. Thank you, Mr. Chairman.

The only thing I would comment—trade sanctions are a slippery slope. There is no question about it. And while I sometimes think that the big guys may be slow to want to take stronger action, because they have greater resources with which to deal with these kinds of issues, the little people have such a tight tether, there is a tendency sometimes to panic and perhaps move into those types of tools too quickly.

I think the legislation that the chairman is proposing and also other legislation that Congressman Bonker has worked on provides some remedies to make this an easier thing with which to deal, so that the little people, the smaller firms affected have some recourse short of pushing the panic button and going for trade restraints.

That will help enormously. Because if we just wait for a time until it starts to hurt the big guys before we move, there will be no little industry left in the international trade market.

With that, I do commend you for bringing this hearing. I commend my colleague, Don Bonker, who really watches over these trade issues for us in the Northwest with great care and thoughtfulness and expertise, and ask unanimous consent to submit an opening statement for the record.

Chairman GIBBONS. We would like to have it. Without objection.

[The statement of Mr. Swift is at p. 26.]

Chairman GIBBONS. Other questions for Gus.

Thank you very much.

We conclude our hearing this morning with a panel composed of John Fluke, Jr., chairman and chief executive officer, John Fluke Manufacturing Co.; Doug Glant, president, Pacific Iron & Metal; and Richard Ford, executive director, Port of Seattle.

Mr. Fluke, we will go with you first, and then Mr. Glant and then Mr. Ford.

STATEMENT OF JOHN M. FLUKE, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, JOHN FLUKE MANUFACTURING CO., INC.

Mr. **Fluke**. Thank you very much. Mr. Chairman, I wish to express my appreciation to you and the members of the committee for inviting me to testify.

My name is John M. Fluke, Jr. I am chairman and chief executive officer of the John Fluke Manufacturing Co., Inc. As you may know, we are not in aerospace or forest products. We build electronic test and measurement instruments.

We are headquartered in the State of Washington, employ 2,700 people worldwide, 1,900 of whom work in our facilities in this State. Our fiscal year 1983 sales were $170 million. The export portion amounted to approximately $58 million.

Trade is very important to our company and specifically the trade with Pacific rim, in general, and the PRC in particular, are our fastest growing markets external to the United States.

Today I want to talk to you about the subject of export controls; this process is very important to our company as 35 to 40 percent of our business is done overseas.

There has been much discussion of how the strength of the U.S. dollar on foreign exchange markets has adversely affected U.S. exporters. Our comments here today can do little to change the value of the dollar on world markets.

However, this committee can work to save exporters millions of dollars in expenses and gain us millions of dollars in sales by exerting your influence on the conference committee currently attempting to create a new Export Administration Act. The act should eliminate the need for many licenses and expedite or eliminate the license review process in certain cases.

During the last several years, the John Fluke Manufacturing Co. has incurred excessive direct and indirect costs because of lengthy delays awaiting the issuance of export licenses. The present act is a barrier to trade and, as you know, the conferees appear to be making little progress toward improving the system.

Let me start by talking about the PRC. The export licensing process for the People's Republic of China is especially annoying because the U.S. Government's public policy is to encourage trade with China and then to erect artificial barriers to prevent it from happening.

It has been our experience that few license applications for China are denied, yet all are subject to months of bureaucratic review and redtape. Included as part of my written testimony is a case history of one export license application for China that took more than a year to be approved.

This case is a good example of all that is wrong with the present export licensing process. This license covered an agreement under which a Chinese organization would assemble a Fluke instrument under our supervision.

The contract, valued at over $1 million, was signed in September 1981, and required substantial planning and expenditures by the Fluke Co. However, it was November 1982 before the export license was approved.

The cost of financing the project for this 14-month period easily exceeded $100,000 and the majority of this expense is directly attributable to export licensing delays. These delays were not only very expensive, but seriously strained our commercial relationship with the Chinese.

Export licensing procedures for the People's Republic of China must be improved if U.S. companies are to successfully compete against our Cocom partners, who routinely exercise the local country option, while our Government routinely refer all cases to Cocom. Specifically, we recommend: One, although the People's Republic of China has been granted the status of a free world country, many restrictions remain. Currently applications for China are subject to a protracted review process, even though in most cases we usually get the license.

Fewer applications should be sent to Cocom. Once Cocom has approved an application for a particular product or instrument, subsequent applications should not be sent there again. Review by Cocom, which appears to be no more than a rubberstamp organization, adds at least another 60 days processing time to an application. This is especially critical when competing companies in these countries do not refer their cases to Cocom as noted earlier.

If the licensing situation for China does not improve soon, U.S. companies will continue to lose ground to European and Japanese competitors. We continue to read about how the administration wants to expand trade with the People's Republic of China.

However, China's Foreign Minister Huang Hua summed up very well the U.S. Government's export licensing policy toward his country by saying, "Loud thunder, but little rain."

Another serious disincentive to exporters are U.S. unilateral export controls. Included as part of my written testimony is another case history about an export license application for a circuit board tester for export to Bulgaria.

This license was denied after several months of review because of a U.S. unilateral export control. The end result was that the Fluke Co. lost a $106,000 contract to an Italian company that makes a similar product because their Government does not enforce a similar export regulation.

We are already having enough trouble remaining competitive with European and Japanese companies because of the strength of the dollar. We don't need our own Government working against us as well.

U.S. unilateral export controls of electronic instruments should be eliminated when there is equivalent foreign competition. Determination of such equivalence should be made only once on a model-number-by-model-number basis, and not require any further review in subsequent orders, regardless of the country originating an order for the product.

As to foreign availability, one of the most serious failings of the current export licensing system is the almost complete disregard of foreign availability. The Export Administration Act directs the Department of Commerce in reviewing export license applications to take into consideration the availability of comparable foreign products. Export license applications are supposed to be approved if equivalent products are available from foreign suppliers.

The case history I just cited in discussing unilateral export controls is a perfect example of the disregard of foreign availablity. During the review of this license, the Departments of Commerce and Defense were informed several times that if the license was denied the current contract will go to an Italian company. However, these agencies showed no concern about the lost business and eventually denied the application.

The export licensing bureaucracy in Washington, DC, must be better informed and directed. The U.S. electronics industry now has very serious competition in Europe and Asia and no longer monopolizes many technologies. Increasingly, an export license denial means the order will be filled by a European or Japanese competitor.

Again, I strongly urge you to examine legislation currently being considered to make certain that we are significantly improving our country's industries to better compete in world markets.

Our company and industry strongly endorsed Congressman Bonker's original bill. We are grateful for his efforts and encourage him to continue to strive to save as much of his bill as possible.

One of our company's primary goals is stable employment for our company's people: international trade is a primary strategic element in realizing that goal.

Mr. **Bonker**. Mr. Chairman, if I may, on the subject of foreign availability, in the ongoing conference with the Senate on the Export Administration Act, one concession we did get from the Senate was our entire provision on foreign availability.

And hopefully if this bill ever becomes law, in the future the burden will be on the Government instead of on the vendor in determining foreign availability, and hopefully the Secretary will publish a list of those items that are known to be available and which would automatically be decontrolled.

Then for those cases that are more difficult to determine, the Secretary would have 90 days to determine whether or not that product is available and if it is, and if he hasn't convinced the foreign government within 18 months to control, then it would have to be decontrolled by our Government.

So that is one of the many contested provisions which the House prevailed on.

Mr. **Fluke**. Thank you very much.

Turning to the commodity control list for a moment. As you know, it still restricts far too many microprocessor-based instruments.

We are now required to apply for export licenses for many instruments that have a dedicated civilian purpose simply because they contain a microprocessor. In most cases, the microprocessor and memory components we use are available in any of over 6,000 Radio Shack stores around the world.

Also, the commodity control list is written in extremely vague and convoluted language few can understand. Our technical people generally require legal counsel to interpret such language, and these regulations are also putting us at a competitive disadvantage.

We have learned that European governments interpret the commodity control list much differently than does our Commerce Department. For example, the British Government interprets an entry relating to microprocessor-based instruments much more liberally than does the Commerce Department.

A commodity control list written in plain English would solve many of these interpretation problems.

Project Exodus. The U.S. Customs Service and the Commerce Department began a program called Project Exodus purports to be an effort to prevent the illegal export of high technology equipment. We recognize that this effort is necessary to prevent the loss of our technological edge, especially in military-related areas.

However, Project Exodus, as it is now administered, is seriously restricting ethical companies from exporting noncritical technologies. This program assumes that a company is guilty of violating the export laws until proven innocent. That is, if the company can ever find out which regulation they supposedly violated. The main problems, which continue, with Project Exodus are:

One, manpower. The Customs Service has assigned many new inspectors to major airports to catch illegal shipments. However, there is not even one inspector with adequate technical expertise on the west coast, now the center of high technology industry.

As a result, these inspectors often hold up the shipment of products that clearly do not require validated export licenses. Furthermore, the Department of Commerce has not added staff to deal with the large increase in their workload caused by Exodus. The result is that the exporter's shipment is needlessly detained for several months—a very costly situation.

Two, lack of an effective and timely appeal process. There is no procedure allowing a company to quickly resolve questions about a detained product's classification. It now literally takes weeks just to find out which specific entry of the commodity control list is supposedly violated.

Even after ferreting out the CCL classification, as well as identifying the licensing officer responsible for making the final determination, one then faces an imprecise and often capricious determination procedure.

As an example, we have had products previously classified, in writing, by one licensing officer as "general destination" items and then reclassified by another licensing officer as "restricted items" following a detainment by Customs. These changes in determination resulting from personal interpretations of the regulations make any planning for export almost an irrational process.

In summary, U.S. exporters already have their hands full dealing with the over valued dollar. We do not need any more disincentives to exporting, particularly from our own Government. Your recommendations to the conference committee to simplify export licensing procedures and to eliminate the need for many license applications will greatly assist U.S. exporters in remaining competitive overseas.

Now to some philosophical points. First, doing business in any export country must be regarded by U.S. companies as a privilege and not a right. Every country must be a little better off for any of us having done business there.

For example, in the case of a company like Fluke, this translates into providing field service facilities to repair and maintain our products that have been sold in export countries, and provide training to customers from a facility that is geographically local to them.

Second, trade is a two-way street. Being the largest consumer on the planet, the United States has an obligation to buy from its trading partners if it expects to be able to sell products to them. Fluke, for example, has recently begun qualifying certain components manufactured in the People's Republic of China for inclusion in our new products.

Third, U.S. companies should view their efforts at penetrating overseas markets as a long-term exercise. We must build customer confidence first, and the profitability will naturally follow if our operations are well managed. In many cases, it may take years to establish high levels of credibility in overseas markets.

Fourth, we cannot expect that permanently erected trade barriers, such as tariffs we may install on our side will not logically be responded to with similar barriers erected by our trading partners. The barriers erected by our trading partners may well be higher because of their relatively lower economic capacity when compared to the United States.

I realize that this latter point, when taken to its extreme, could impose considerable difficulty on our more mature industries, thus U.S. industry must pay more attention to the normal sequence of economic dislocation and address worker retraining here at home as an ongoing recurring cost of being in business.

Of particular urgency is the design of a legislative and executive branch agenda that represents a workable consensus between those businesses that are negatively affected by free trade and those that are positively affected by free trade.

While there are many other issues that need to be addressed, it is the issue of free trade that can be the most divisive and if left unresolved, can only serve to weaken our effectiveness in world markets.

The administratively onerous and sometimes unreasonable restrictive export licensing process imposed on U.S. exporters by our own Government has all too frequently constrained us to provide less than acceptable service to our overseas customer. And, in some cases, delays have resulted in our overseas customer purchasing comparable products from Western Europe and Japan.

Last, in the broadest possible sense, international trade may well be our best means for achieving a lasting and secure peace on a worldwide basis. It is much better that we confine our battles to the surface of the negotiating table for the benefits of consumers everywhere—both in this country and abroad—than to take up arms against each other.

It may well turn out that two-way international trade, if conducted with a sincere desire on both sides to create agreements of balanced mutual benefit, will be the most effective instrument of peace yet devised by the inhabitants of this planet.

Thank you very much for your attention.

[Attachments to the prepared statement follow:]

Exhibit A

Section II—Written Testimony

A. FLUKE EXPORT LICENSING ACTIVITY DURING FISCAL YEAR 1982

An examination of the Fluke Company's experience with the export licensing process during the past 12 months (see details below) leads on to several inescapable conclusions:

The licensing of Fluke Products is essentially an expensive and time consuming paper processing exercise.

Few applications for China are being denied but all are subject to several months of bureaucratic review.

Applications to export to Eastern Europe are likely to be denied or subject to a very protracted review process.

Export licensing is a fragmented process spread throughout the Departments of Commerce, Defense, State, Energy and the CIA. There is no system in place allowing a company to quickly check on the status of an export license application. The statutory time limits for processing applications are largely ignored by these agencies. Because the process is so fragmented, officials of one agency are always blaming other agencies for processing delays or will deny an application based on the "belief" another agency would not approve it.

Countless telephone calls to OEA officials go unreturned. Written requests for the status of pending license applications generally are not answered. Legitimate requests to expedite license application reviews, such as possible cancellation of a contact or expiration of a letter of credit, are usually ignored.

Department of Commerce personnel are not technically qualified to evaluate many license applications. If they do not understand an instrument, they are likely to deny an application in order to play it safe.

A.1: *Licensing Detail.*—During 1982, within the past 12 months, the Fluke Company has submitted 61 applications for validated export licenses. To date, 20 were approved (33%), 4 were denied (7%), 37 are pending (60%).

The 61 applications covered Fluke sales of $3,585,240 or approximately 2.3% of total 1982 revenues. Presently, shipments valued at $2,094,197 are on hold awaiting issuance of export licenses. Shipments valued at $110,050 were denied export licenses within the last 12 months.

2. *People's Republic of China.*—During the past year, 43 export license applications for China were submitted. To date:

Ten applications were approved valued at	$1,317,380
Two applications were denied valued at	27,675
Thirty-one applications are pending valued at	1,985,355
Total for China	3,330,410

For those applications which were approved:

Three months was the fastest processing time.

Eleven and one-half months was the slowest processing time.

Four and one-half months was the average processing time.

The Model 8520A Assembly Agreement license was submitted nearly one year ago. It was finally approved on November 12, 1982.

A.2: It is important to note that only two applications for China, both for the same instrument model, have been denied.

3. *Yugoslavia.*—Within the past year, six applications were filed. To date:

Six were approved valued at	$1,140,864
None were denied.	
None are pending.	
Total for Yugoslavia	1,140,864

Of the four applications that were approved, three were processed in about a month and a half and the other application required four months of review.

4. *Eastern Europe.*—(Bulgaria, Hungary, Romania and Czechoslovakia.)

Six applications have been submitted. Of these:

One was partially approved valued at	$2,745
One denied, another partially denied valued at	111,050
Four applications are pending valued at	94,861
Total for Eastern Europe	208,656

The one license that was partially approved was processed in three months. There is a good chance that most of the pending applications will be denied by the Defense Department. One of the pending applications was submitted over a year ago.

5. *"Free World" Licenses.*—Five license applications were filed for non-communist countries not covered by our distribution license; Kuwait, Zimbabwe, the Ascension Islands and Iraq.

A.5: Three were approved valued at	$32,079
None were denied.	
Two are pending valued at	13,981
Total	46,060

The approved "free world" applications were processed in about one month's time.

6. *Customs Seizures.*—Within the past four months, five Fluke shipments to China have been detained or seized by U.S. Customs in Seattle and San Francisco. All of these cases were a result of "Project Exodus," a program by the U.S. government to prevent the illegal shipment of high technology equipment. This program is having a serious impact on the flow of Fluke instruments to China. Specifically—

Customs Inspectors do not have sufficient training to enable them to distinguish between a voltmeter and many household appliances. As a result, they are needlessly detaining numerous shipments of electronic instruments bound for China.

Many Customs officials do not understand the export licensing process; believing that the State Department issues licenses to ship to unfriendly "Communist countries."

Once Customs detains a shipment, they send copies of the shipping documents and the technical specifications to the Commerce Department in Washington, D.C. to determine if the shipment should have been licensed. In many cases, the Commerce officials are classifying instruments as restricted items without adequate technical information and are not referencing the instrument's export licensing history. Two Fluke instruments, which in the past Commerce stated do not require an export license, have been seized by Customs because one Commerce official now believes they should be restricted. Also, there is no administrative procedure to appeal these "technical" determinations.

A.6: Three Fluke shipments are currently seized by Customs. These instruments should be classified as "G-Dest" items. Despite numerous packets of technical information, personal visits and telephone calls, little progress has been made in securing the release of these shipments.

Customs officials recommend that all Fluke instruments that do not require an export license, known as "General Destination" or "G-Dest" items, be classified as such in writing by the Commerce Department. However, because of the backlog of license applications, "G-Dest" classifications are a very low priority at the Commerce Department. One request for a "G-Dest" determination took nearly three months to obtain and required three personal visits and at least five letters to OEA.

EXHIBIT B

B. FLUKE COMPANY RESOURCES REQUIRED BY THE EXPORT LICENSING PROCESS

1. *Direct Costs.*—Our direct expenditures for personnel, travel and related support costs to meet the export licensing process in Fiscal Year '82 exceeded one quarter of a million dollars. These costs are broken down as follows:

One full time export licensing administrator and half time support of one secretary.

One member of Fluke legal staff is devoting half time to export licensing.

The Manager of International Market Development is spending 25% of his time on export licensing matters.

Individuals in internatinal order processing, shipping and at the Fluke subsidiary in the Netherlands devote approximately 10% of their time preparing documentation to assure compliance with export regulations.

B.1: The Sales Manager for Asia spends about 15% of his time on export licensing matters relating to China.

An individual within each Business Unit devotes about 5% of this time classifying Fluke instruments under the export commodity control list and speaking with export licensing officials in Washington, D.C.

Outside counsel has been retained through the summer and fall of 1982 to help expedite applications and to assure compliance with the export regulations. Cost in Fiscal Year 1982 of such counsel was $4,000.

Within the past year, six trips have been made to Washington, D.C to meet with export licensing official.

Other expenses to support the licensing process are substantial. Phone bills to Washington, D.C. are very high (few calls are ever returned). At OEA's request, all applications and correspondence with them sent via courier service as they cannot assure that regular mail will ever reach them.

2. *Inventory/Project Financing Costs.*—Once an order or project requiring an export license is received, the Fluke Company will normally begin building the instrument or will start preparation for the project. Most contracts with Chinese or East Bloc customers are covered by letters of credit under which payment is not made until well after the goods are shipped. Shipment is usually made shortly after receipt of the validated export license. The tremendous cost of financing this inventory is best illustrated by the Fluke Company's experience with export license applications for China. During the past year, license applications were submitted for orders totaling $3.3 million. Assuming the average processing time we have experienced, it has been about five months before we can make shipment. At an average interest rate of 15% for the year, financing costs for these China orders alone was approximately $208,000.

B.3: Resources Required for the Export Licensing Process During 1983.—With the anticipated growth of Fluke sales in China and the U.S. Customs Service's efforts to restrict the illegal export of high technology equipment to Communist countries, a considerable amount of additional work is needed over the next year to assure compliance with the export regulations and to prevent seizures of Fluke shipments.

Standard procedures must be developed for classifying instruments and components and for licensing procedures.

Training manuals and courses need to be developed for domestic and international order processing, shipping and sales and marketing personnel to assure understanding of, and compliance with, export licensing regulations.

A substantial amount of time, both on the telephone and in person, will have to be spent with Customs Service personnel, explaining the U.S. goverment's export regulations and Fluke Company efforts to comply with those rules.

A reporting system will be developed to assure that appropriate personnel are informed about changes in the regulations and the status of license applicaitons.

Our exports in 1983 would be substantially higher if these resources could be used to develop business, rather then being wasted on a seemingly unneeded process.

EXHIBIT C

REPRESENTATIVE DON BONKER VISIT BY CHINESE DELEGATION, TUESDAY, APRIL 24, 1984

Thank you, Congressman Bonker, Vice Minister Mr. Zhang (phonetic: Chang),

Members of the Vice Minister's Delegation, Ladies and Gentlemen, Good Morning.

Today the subject is trade between the People's Republic of China and the United States. Needless to say, this is a subject that has received a lot of attention in the news media for the past several years and will continue to be and increasingly newsworthy subject in the future. I am also pleased to say that the subject is worth reporting from the peaceful and positive aspects of increasing trade levels between our two countries rather than the negative and destructive elements that make most other news stories newsworthy. It is, therefore, with considerable optimism and enthusiasm that I address this important subject this morning.

My approach this morning is to discuss John Fluke Mfg. Co., Inc.'s experiences over the last several years with the People's Republic of China. This is a real-live case study and the outcome to date can be judged a success for both parties by most standards of measure.

After presenting this case study, I will attempt to generalize on several important philosophical points that are important not only to trade with a specific country like the People's Republic of China but also apply equally well to most other countries with whom we would engage in international trade. Before I launch into the case study itself, let me briefly describe John Fluke Mfg. Co. for those of you who may not be familiar with the company.

Fluke was founded in 1948 in the basement of John Fluke, Sr.'s home in Springdale, Connecticut. The company's first product was an electronic volt amp and wattmeter which was sufficiently successful to fund the company's initial growth. Thereafter the company moved into the field of precision electronic power supplies used for such applications as powering photomultiplier tubes used in nuclear research work.

By 1952 the company had outgrown its basement quarters and, because John Fluke, Sr. was a native of the Pacific Northwest Region of the United States, he decided that he should relocate his company to the area he called "home."—Seattle, Washington.

Through the balance of the 1950's and the bulk of the 1960's, the company built its reputation in the field of precision DC and low frequency AC electronic measurement technique through products such as its portable differential voltmeter line and its line of precision calibrators. By the end of the 1960's, the company had attained annual sales levels of around $10,000,000 and had firmly established itself as a precision electronic instrument manufacturer.

Through the decade of the '70's the company continued to expand its product lines to include rugged, reliable, portable instrumentation as well as laboratory instrumentation for use in all branches of the electronics industry, internationally as well as domestically. The company's line of portable digital multimeters became accepted worldwide as a premium quality service tool used by the world's leading manufacturers of computers, electronic office equipment, and electronic controls on a wide variety of industrial machines as the primary service tool with which their field service technicians are equipped. The company ended the decade at an annual sales rate above $100,000,000.

Today, four years into the decade of the '80's, the company continues to be a broad line supplier of electronic test and measurement equipment to all of the electronics industry. For the current fiscal year, which is about half over, we should see sales reach the $200,000,000 per year level.

The company is organized into three operating divisions and over a dozen major shared resource unit grgups (gr internal vendors of goods and services). Each of the divisions has three business units, which are the profit centers of the company. Each Business Unit is responsible for one or more product lines. The company now employs almost 2,800 people worldwide, with about 1,800 of our people located in the State of Washington.

In addition to a manufacturing operation established in the late '60's in Tilburg, The Netherlands, the company also has a very small manufacturing operation in Sao Paulo, Brazil, and sales offices in England, The Netherlands, Belgium, Germany, South Africa, Brazil and Japan. In the balance of the 78 countries in which Fluke Manufacturing does business, the company is represented by independent manufacturer's sales representatives.

Now directly to the topic of the company's trade with the People's Republic of China:

Our China sales began in 1973 with a very small order. This order was a result of our participation in an exhibition in China in 1973 through one of our acquired subsidiaries. Orders from China continued at modest levels until 1978. That year, more intensive relations began to develop when Instrimpex (China National Instruments Import Export Corporation) invited the company to China for a week-long seminar series on Fluke's printed circuit board testers, calibrators, and digital multimeters. The seminar gave Fluke a chance to introduce most of our product lines, and nearly all equipment brought to Beijing sold on the spot. The Instrimpex seminar was the real jumping-off point for expanded business with the People's Republic of China. Sales of finished products have increased every year since.

In early 1980, Fluke entered into a special relationship with the Beijing Radio Research Institute, a unit of the Beijing Municipality. The links have endured to this day; and until recently, Beijing Radio Research Institute has been Fluke's only formal partner in all business arrangements above and beyond finished-goods sales. The first Fluke-Beijing Radio Research Institute contract called for assembly in China of 2,000 semi-knockdown and complete-knockdown kits of the model 8024A portable digital multimeter, at a total value of one half million dollars. This was followed in 1980 by a $1/4 million contract for assembly of 50 Model 8502A laboratory digital multimeters. Cooperation with Beijing Radio Research Institute on product assembly expanded in the fall of 1981 Chinese assembly of the newer Model 8520A laboratory precision digital multimeters. Unlike the first two assembly contracts, this agreement, with a total value of over $1 million, also called for Fluke to provide and install subassembly production capability at the Beijing Radio Research Institute, including such key items as flow soldering equipment. Assembly of this Fluke instrument has continued beyond the units initially agreed upon, and current contracts with Beijing Radio Research Institute provide for the supply of 8520A kits through 1985.

In the spring of 1982, Fluke and Beijing Radio Research Institute contracted for Beijing assembly of the Model 8050A portable digital multimeters, in a contract valued at over half a million dollars.

With so much assembly work in the pipeline, location of a Fluke service center in China was a logical development. In Spring of 1982, Fluke set up a service center in Beijing, and equipped it with $100,000 of capital equipment.

With the creation of the service center in China, we placed a permanent service manager in China for the first time. Planning is now in progress to open a second service center in the Shanghai area.

The rapid increase in the number of product-assembly projects, which Fluke has welcomed, has had a major impact on the company's overall China business. In 1983, kits assembly contracts accounted for roughly half of total China sales. We expect continued growth of assembly contracts and there are indications that the number of entities in China with which we deal will soon widen. Negotiations for assembly contracts for other state-of-the-art pieces of test equipment at a Ministry of Electronics Industry plant in Sichuan province, are in an advanced stage.

Meanwhile, changes in Chinese economic organization have brought new business opportunities. In 1980 formation of the China Electronics Import/Export Corporation under the then-Fourth Ministry of Machine Building (now the Ministry of Electronics Industry) brought a number of new contacts. The company's original focus on a single trading partner (Instrimpex) and a single cooperatifg partner (Beijing Radio Research Institute) has given way to a more varied and more demanding involvement with numerous Chinese counterparts—including, in Beijing alone, China Electronics Import and Export Corporation, China National Instruments Import and Export Corporation, China North Industry Corporation, China National Technical Import Corporation, China Aero-technology Import and Export Corporation, Oriental Scientific Instruments Import and Export Corporation, China Great Wall Industry Corp., and the Xiaofeng Technology Equipment Company. Through Techimport, Fluke provided digital multimeters, data loggers, and signal generators to 26 Chinese universities under a program of academic technical modernization funded by World Bank loans. Furthermore, we are just beginning to expand our direct contacts with Chinese units outside Beijing; we currently deal with several Shanghai organizations as well as counterparts in Guangzhou, Yunnan, and elsewhere.

China's rapid acquistion of Fluke products has concentrated at the upper end of our product line, as those products are simply not obtainable domestically. While we have been responsive to opportunities for assembly of kits in the People's Republic of China, we have only recently begun to consider Chinese initiatives regarding licensing agreements or joint ventures. That will change as we begin to explore certain joint venture opportunities.

As China business continues to grow, Fluke will face new challenges. Competition looms, both from other U.S. companies and from Europe and Japan. We are confident that we have achieved valuable name-recognition in the calibration and digital multimeter sector of the Chinese electronic instrument market which, combined with our attention to the customer's needs for service and training and high levels of product quality, will maintain Fluke as a competitive supplier.

Moreover, we have come to recognize that the opportunities for trade in the China market, while difficult to measure accurately, are greater than the levels we have attained thus far. We are now addressing the expansion of our geographic range of contacts throughout China.

China is not only Fluke's fastest-growing overseas customer; it is a major market in its own right, with distinctive commercial, cultural and social characteristics. Recognizing this, we have recently made China-market planning a separate process, now distinct from our Asia-wide planning effort. We employ two people who speak fluent Chinese to ensure efficient communications. Fluke's long-term approach to China is to establish an enduring and mutually beneficial presence in the market, with extensive emphasis on technical support and training functions.

The core assumptions and strategies remain constant even as we adjust to the emergence of the large, long-term business relationship. We will vigorously pursue opportunities for assembly of our products in China as well as continuing to pursue new opportunities in finished-product sales and in licensing.

Now to those philosophical points I promised you earlier. First, doing business in any export country must be regarded by U.S. companies as a privilege and not a right. Every country must be a little better off for any of us having done business there. For example, in the case of a company like Fluke, this translates into providing field service facilities to repair and maintain our products that have been sold in export countries, and provide training to customers from a facility that is geographically local to them.

Secondly, trade is a two way street. Being the largest consumer on the planet, the United States has an obligation to buy from its trading partners if it expects to be able to sell products to them. We have recently begun qualifying certain components manufactured in the People's Republic of China for inclusion in our new products.

Third, U.S. companies should view their efforts at penetrating overseas markets as a long term exercise. We must build customer confidence first, and the profitability will naturally follow if our operations are well managed. In many cases, it may take years to establish high levels of credibility in overseas markets.

Fourth, we cannot expect that permanently erected trade barriers such as tariffs, that we may install on our side, will not logically be responded to with similar barriers erected by our trading partners. The barriers erected by our trading partners may well be higher because of their relatively lower economic capacity when compared to the United States. I realize that this latter point, when taken to its extreme, could impose considerable difficulty on our more mature industries; thus U.S. industry must pay more attention to the normal sequence of economic dislocation and address worker retraining here at home as an ongoing recurring cost of being in business.

At Fluke Manufacturing, for example, there are people who 25 or 30 years ago were assembling electronic instrumentation built out of vacuum tubes and point-to-point wiring; crude by today's standards. Today, many of those same people are working in Fluke's integrated circuit fabrication laboratories manufacturing state-of-the-art components. This is possible not only because these people are dedicated and highly trainable, but also because the company over the years has made an investment in retraining its people. Nowhere in any industry are technology changes so dramatically seen and felt as in the electronics industry and yet technology has not taken anyone's job away from them in our company.

Another barrier to trade has been the administratively onerous and sometimes unreasonably restrictive export licensing process imposed on U.S. exporters by our own government, and has all too frequently constrained us to provide less than acceptable service to our overseas customers, and, in some cases, delays have resulted in our overseas customer purchasing comparable products from Western Europe.

Lastly, in the broadest possible sense, international trade may well be our best means for achieving a lasting and secure peace on a worldwide basis. It is much better that we confine our battles to the surface of the negotiating table for the benefits of consumers everywhere, both in this country and abroad, than to take up arms against each other. It may well turn out that two way international trade, if conducted with a sincere desire on both sides to create agreements of balanced mutual benefit, may be the greatest instrument of peace yet devised by the inhabitants of this planet.

Thank you for your attention. Good morning.

Make comments on importance of high tech industry in the northwest: growing number of companies that need the technical disciplines; VLSI Consortium (defense); and large number Asian scholars in technical disciplines at northwestern universities.

If test and instrument is mentioned, it is not only for our company but others in the northwest.

EXHIBIT D

APRIL 26, 1984.

Hon. SPARK MATSUNAGA,
U.S. Senate, Committee on Finance,
Washington, DC.

DEAR SENATOR MATSUNAGA: John Fluke, Jr., our Chairman and Chief Executive Officer, has asked me to respond to your letter of April 11, 1984, to John Fluke, Sr., about the impact of federal policy on foreign trade. Fluke, Sr. passed away in February of this year.

We certainly welcome this opportunity to comment on U.S. trade policy. Our export business will amount to over seventy million dollars this year, and we are working diligently to significantly increase it. Therefore, we are obviously interested in having trade barriers eliminated, or at least reduced.

First I must tell you we believe that trade expansion is best achieved through policies to increase exports, rather than policies to limit imports.

THE STRONG U.S. DOLLAR

Probably the greatest impediment to our exports at this time is the much-talked-about strength of the U.S. dollar, which is making us much less competitive with the ever-increasing number of products indigenous to foreign markets. We urge you to support a reduction of the U.S. budget deficit, which would hopefully create a more realistic value of the dollar relative to other currencies.

GSP LEGISLATION

We also ask that you support the renewal of the Generalized System of Preferences Legislation, which would help strengthen the economies of some of our trading partners.

DISC OR EQUIVALENT

We know that the U.S. is under great pressure to eliminate DISC's, however, we do need an adequate substitute. Otherwise U.S. companies will encounter increased taxation, causing an upward pressure on the pricing of their products which will only exacerbate the problem already brought about by the strong U.S. dollar.

EXPORT LICENSING CONTROLS

U.S. export licensing controls have unnecessarily impacted our exports. We believe in keeping critical U.S. technology out of the hands of the "enemy." However, we do not believe it is in our best interests to prevent the export of U.S. products when comparable products are readily available from a multitude of other countries friendly to the U.S. Additionally, extended delays in the licensing process have caused U.S. companies to lose considerable business. Purchasers, such as many in the People's Republic of China, are hesitant to place orders with us when the time of delivery cannot be predicted with any certainty. We were told by a member of the China National Instruments Import Export Corporation that they placed a $500,000 order for digital multimeters with a U.K. competitor of ours because that company did not need to obtain an export license and, therefore, could make delivery much more quickly. We urge you to support the House version of the Export Administration Act.

EXPORT SANCTIONS AND THE DEVELOPMENT OF HIGH TECHNOLOGY

Export sanctions would very definitely affect the development of the high technology industry in the United States. Product life cycles in our industry are short and development costs are high; therefore, we must have a substanital amount of export business to be able to fund the R&D of new and innovative products. Without them we cannot survive. Furthermore if we are hampered in effectively challenging our competitiors in their home markets, we will allow them to develop a sales base that will enable them to be a more formidable factor in the U.S. market.

FOREIGN TRADE BARRIERS

Finally, we recommend that the U.S. Trade Representative negotiate vigorously and tenaciously to eliminate foreign trade barriers. For example, some countries like Brazil, have increased the control on foreign investment in their countries. Companies in Brazil engaged in the manufacture of electronic test and measurement products, e.g., Fluke, are being required to reduce the foreign ownership in their companies to no more than 30%. This means that the resulting amount of foreign control will probably be inadequate to bring about the marketing objectives desired by the foreign company. Until the 30% or less target is met, the company has severe restrictions on the amount of product it can import into Brazil—a country with which the U.S. has a negative balance of trade. It would also seem that we could assist lesser developed countries, like Brazil, with the formation of infrastructures to better handle their massive economic problems.

Thank you again for soliciting our comments. Please be certain to contact me if any of the above is unclear or needs expansion.

Sincerely,

RONALD R. WAMBOLT,
Director, International Operations.

APRIL 11, 1984.

Mr. JOHN FLUKE, Sr.,
Chairman, John Fluke Manufacturing Co., Inc.,
Everett, WA.

DEAR MR. FLUKE: As a member of the International Trade Subcommittee of the Senate Finance Committee, I am deeply concerned about the impact of federal policy on foreign trade in an increasingly global economy. Obviously, those best qualified to testify on that impact are representatives of companies, such as yours, who are most affected by U.S. trade policy. I have therefore developed the following pertinent questions for your consideration, the answers to which would be of great assistance during continuing Senate deliberations on the foreign trade issue, including the monitoring of trade legislation.

1. Have export sanctions caused you to lose sales, curtail production and employment? If so, to what extent?
2. Have you had experiences in which, as a result of export sanctions, business was lost to competitors from, say, Western Europe, East Germany, the Soviet Union, Korea or Japan? If so, please give specific examples.
3. What, if any, are your major concerns regarding the evolution of U.S. export policy?
4. In your view, to what extent, if any, might export sanctions affect the development of high technology industry in the United States?

You will, I'm sure, agree with members of the Subcommittee that it is imperative that the United States maintain preeminence in world trade. I shall look forward to receiving your responses on this vitally important subject.

Aloha and best wishes.

Sincerely,

SPARK MATSUNAGA, *U.S. Senator.*

EXHIBIT E

TESTIMONY OF ROBERT A. KAPP, EXECUTIVE DIRECTOR, WASHINGTON STATE CHINA RELATIONS COUNCIL, APRIL 4, 1984

Chairman Bonker, Chairman Solarz, members of the Committee: It is a pleasure and an honor for me to meet with you today in order to share perspectives on our trade relations with the People's Republic of China, and in particular to discuss the experiences of the Washington State trade community in developing mutually beneficial and enduring trade ties with China.

I am Robert A. Kapp, Executive Director of the Washington State China Relations Council. The Council is a private, nonprofit body founded in 1979 for the sole purpose of enhancing commercial and cultural ties between the state of Washington and the People's Republic of China. The Council draws its funding from annual memberships, of which we currently enjoy nearly one hundred. Our members are all organizations, ranging in size from very small trade companies and professional services entities to the largest private economic organizations in our state. Our Board of Directors consists of thirty of the state's most respected leaders from the fields of business, higher education, and state government. The Council from its inception has benefitted from the strong and active support of the state's leading elected officials serving at both the state and federal levels. All members of the Washington State Congressional delegation, including two Representatives who have long served on the House Foreign Affairs Committee, are ex officio members of our Board, and we have had the privilege of working in cooperation with the state's senators and congressmen on numerous occasions. The governor of the state of Washington is also an ex officio director of the Council, and we have worked closely with the governor since 1979 in what we feel has been a particularly successful partnership on behalf of stronger relations between one state and the People's Republic of China.

The Council operates from offices in Seattle, with a staff of only two full-time employees. Our principal services to our members are: the provision of substantial quantities of information of relevance to members' particular professional interests, on an unsolicited basis; programming, including many meetings with Chinese and U.S. government officials, trade, specialists, and visiting delegations; and tailored services provided at the request of individual member organizations.

In meeting with you today, I wish to make clear that I speak as representative of the Washington State China Relations Council itself, and not as a representative of any of its members individually. One of the Council's fundamental policies is that it not represent any of its members. My vantage point, therefore, is that of a reasonably well-informed observer of our state's business activities, with academic background and linguistic training in Chinese and frequent contact with working business people—but not that of an "inside" participant in the deliberations of any corporations or trade entities.

THE STATE OF WASHINGTON

For the benefit of those Members who may be less familiar with the economic and commercial landscape of Washington State, let me offer a few pieces of descriptive information.

The state's economic bases lie in natural resources, agriculture, transportation, aircraft and related industries, and a growing electronics or "high technology" sector. The state is not home to very much traditional heavy industry—machine tools, iron and steel, primary producer goods. While the state is the home of some very large corporate headquarters, it does not possess the concentration of multinational corporate offices found in certain other states. While the financial institutions of the state play leading roles in the Pacific Northwest Region, including roles in the facilitation of international trade, even the largest of them may be considered primarily as regional institutions.

In terms of natural resources, the key sector is forest products. In agriculture, the state is a leading producer of wheat (soft white winter wheat), potatoes, and of tree fruits (its apples are particularly well known). The aircraft industry revolves, of course, around The Boeing Company, which manufactures its entire range of commercial aircraft in the state as well as many other products for non-commercial use. The transportation sector consists of a series of ports, on Puget Sound and along the Colombia River, which together constitute one of this nation's most vital and best developed "gateways" to the Pacific Basin and the world; of major land transportation arteries to the great markets of the midwest and eastern United States; and of the specialized services that turn geographic advantages and infrastructural investments into successful and profitable sources of employment oand economic benefit to the state, the nation, and the world.

The state's growing technology sector features a broad range of electronics firms, many of them relatively new and fast-growing. Of particular renown are corporations in the fields of measuring and testing devices, medical electronics, and commercially-applicable computer-related accessories.

Finally, we should note as we approach the subject of Washington State's trade relations with China that, given its geographic proximity to Asia and the sophistication of its transportation facilities, Washington State is home to some very successful import companies—not, for the most part, national giants, but nevertheless important factors in the overall growth of the state's trade and key users of the ports and service sector of the foreign trade economy.

With a population of less than five million, Washington State is not per se one of the major markets for imported products, and much of the cargo entering its ports is destined for other areas of the United States. Yet, taking into account the salient importance of international trade for the state's aircraft industry, its tranportation sector, and it's wheat economy (90% of the state's wheat production is for export), we believe that on a percapita basis, the value of the state's foreign trade ranks first in the United States.

WASHINGTON STATE TRADE WITH CHINA

With due recognition of the fact that my views reflect my particular exposure to those entities in the state of Washington that are engaged in building trade with China, and acknowledging freely that my work focuses on promotion of such trade, I am nevertheless confident in telling you that Washington State's trade with China is growing well; that in some sectors it is already very substantial; that it has become an integral and long-term component of the trade activities of a growing number of entities in the state; that the variety and sophistication of trade transactions between Washington State entities and China continues to increase rapidly; and that there is a strong and powerful community of interests in the state which wishes to preserve and improve the environment of U.S.-China trade relations. I can also tell you that there are certain areas of trade in which our hopes have not yet been fully realized, and that the uninformed public and business euphoria of the 1978-79 period has given way to a more realistic understanding of the challenges and difficulties facing serious business persons in their efforts to develop China trade. For the growing list of Washington State businesses enjoying durable and successful trade ties with Chinese counterparts, China trade is not a lark, and it is not the product of sudden brainstorms and instant deals. It is instead the result of careful cultivation of business relationships with China and the result of gradually deepening sophistication—on both the U.S. and Chinese sides—about how the other side conducts business. Most of this progress has taken place in the past five years, since the establishment of diplomatic relations between the U.S. and the PRC. Given the shortness of that time and the depth of the chasm that separated traders from the two countries before normalization, I find the progress in our state's trade activities with China both surprising and highly satisfying.

I may speak briefly about specific fields, citing examples to point to the larger conclusion.

A. Natural Resources. The People's Republic of China has become a very large purchaser of forest products from the state, primarily of logs. It is fair to say that during the worst period of the recent recession, when the state's forest products industry was reeling from the effects of the domestic downturn, Chinese purchases of forest products were a major factor in preventing even more catastrophic developments at a number of leading forest products corporations operating in the state. In terms of both value and tonnage, forest products exports were the dominant item in the state's waterborne export trade with China. The PRC ranks among the largest foreign markets for some of the state's leading timber producer corporations. While the forest products sector of the state economy is by no means one-dimensional in its approach to China, the volume of forest products trade overall is a key fact in the state's China trade—and indeed in that of the nation as a whole.

B. Agriculture. This is a sector in which the hopes of the state of Washington, as well as of other states in the Northwest, have not yet been fulfilled. The major export commodity is wheat, and thus far significant shipments of Washington State wheat have not moved to China. The issues are well known to elected officials of the states concerned, to U.S. Department of Agriculture officials, to the U.S. wheat industry, and to Chinese officials concerned. Interpretations of the issues vary with the observer.

C. Aircraft. Members of the Committee who have travelled to or in China will certainly have noticed with pleasure the use of Boeing aircraft by the Civil Aviation Administration of China, both on its principal international routes and increasingly on domestic routes. Boeing aircraft sales to China began in 1972 (ten 707s) and continue to this day, the most recent deliveries being 737 and 747 aircraft. Boeing, by far the state's largest single corporate employer, has developed and maintained close working relations with both the Chinese national airline and the principal government agencies concerned with the production and use of aircraft.

D. Transportation. The progress in recent years has been strong, and the signs are favorable for continued growth. The state's principal forest products export ports have benefitted greatly from the China trade, of course. The state's largest port, Seattle, while not primarily a forest products facility, estimates liner export tonnage from China in 1983 at an index number of 2327 (1974=100), as against the national average of 973 (1974=100). While the ports of the state do not yet enjoy regular calls by Chinese-flag vessels or ships plying directly between the state and China, the rate of growth of incoming and outgoing cargoes between Washington State and China—and in the provision of the many ancillary services accompanying the movement of goods—has been highly satisfying.

E. Electronics. Here, the record is very impressive for those companies which have done the serious, long-term work and which have not been deflected by inhospitable regulatory environments on one side or the other. China is the fastest-growing foreign market for the state's largest and best-known home-grown electronics firm (i.e., with headquarters in the state), and now ranks fourth among foreign customers. One of the state's leading medical equipment companies scored in late 1982 the largest single sale in its corporate history in a contract with the PRC; its instruments, like those of the first company referred to above, are in use throughout China. A variety of Washington State companies, having entered the market with initially very modest sales followed by increased sales of finished products, are currently exploring with great seriousness opportunities for cooperation with Chinese entities in the form of assembly deals, licensing arrangements, or joint ventures. The recent modifications in U.S. export regulations have already produced indications in the state of Washington that additional electronics and technology companies—which previously considered China "off limits" to their products and their attentions—are now able to look with hope on commercial opportunities there. The visit to the Northwest in late April of a delegation from China's Ministry of Electronics Industry, led by a ranking ministry official, and at the invitation of Congressman Bonker and Senator Hatfield, promises further to expand opportunities for trade in the technology fields for which our state is becoming better and better known.

F. Import trade. The picture here is of continued strong trade in "traditional" products, such as handicrafts and Chinese agricultural byproducts, and also of broadening trade in other commodities: clothing, hand tools, relatively low-technology machinery, etc. China's progress in recent years in adjusting itself to the demands of world markets may at times seem agonizingly slow to U.S. businessmen, but from the perspective of earlier Chinese attitudes and performance has been extraordinarily rapid. While re-emphasizing that the state of Washington is not a major consumer market for Chinese goods, I can say that we are increasingly aware of import activity, often by relatively small Washington state companies, across an ever-broader spectrum of commodities and goods. Such activity is obviously important not only to the importing entities themselves, but to the transportation economy of the state which is so heavily tied to international trade activity.

In sum we see steady growth both in the quantity and in the range of the State's trade activities with China. We have seen no major fiascoes—huge corporate efforts resulting in nothing, gross misunderstandings resulting in failed business and ill will all around. China trade is generally not the easiest place for very small businesses with limited personnel and financial resources to "take a flyer," and we sometimes counsel newcomers to measure the costs and requirements of successful China trade before they pin too many hopes on it. But in fact the corporations successfully conducting commercial transactions with China range from the very modest to the very large, by U.S. business standards.

FINAL REFLECTIONS

Let me add a few additional thoughts that take us beyond the "hard" matter of trade itself.

1. While we all recognize that China's system of government (including its foreign trade) and its traditions of social behavior, to say nothing of its tumultuous political history, make business there more complex for U.S. business people, my sense is that changes in the Chinese environment since 1978 have been overwhelmingly favorable to the development of Sino-U.S. commercial relations, and that favorable developments will continue in the future. While the difficulties of doing business in China—ranging from the mundane problems of infrastructure or accommodations to the more difficult problems of understanding China's political or commercial decision-making—will be with us indefinitely, I am impressed by the growing extent to which regularity and predictability, rather than surprise and emergency, characterize the trading environment between our State's companies and China. The promulgation of numerous trade-related laws, while hardly guaranteeing a sudden transformation of the Chinese trade and political environment for foreign business people, nevertheless augurs well for the continued integration of China into the world trading system with which our people are familiar, however imperfectly.

2. One of axioms on which the Washington State China Relations Council was founded was that commercial relations simply cannot be wholly separated from cultural ones. As I am wont to say, "Every Sino-American business transaction *is* a cultural transaction as well." Our members' experience has borne this out. There is no substitute for doing one's homework in advance on China, and ultimately for experience itself. No business person who enters seriously into China trade and stays with it is quite the same person thereafter. In my view, the strength of the trade relationship will depend in part not only on the cultural sensitivity and sophistication of the participating business persons on both sides, but also on the growing levels of understanding among government officials and the American public at large. This is not to say that we must become a nation of sinophiles in order to conduct our business profitably with China; it is to say that we must, as the Chinese put it, "know ourselves, know the other," if we are to realize to the full the opportunities for mutual benefit that trade with China presents to us and our Chinese counterparts. For this reason, among others, the Washington State China Relations Council continues to pay heavy attention to the development of strong cultural and educational relations between our State and the People's Republic of China. The State's business community by and large has done the same; an example of broad private- and public-sector support of closer cultural ties between our State and China is the recent opening, attended by His Excellency Ambassador Zhang Wenjin and other Chinese diplomatic guests, of "China: 7000 Years of Discovery," the magnificent exhibition of ancient and traditional Chinese science and technology whose only West Coast appearance is at Seattle's Pacific Science Center, March 1–August 31, 1984. We are gratified that, in addition to the strong community of interest that exists in support of expanded trade with China in the State of Washington, a broad commitment to increased public understanding of China and our relations with

China continues in the business world, the educational sector, and the public sector. The State's relations of friendship with the great province of Sichuan (Szechwan), and the city of Seattle's recently-formed links with the Chinese metropolis of Chongqing (Chongking) are further contributions of this broad-based commitment.

3. In assessing the importance and value of our trade with China, we believe that the most useful measure is the record of U.S.-China trade itself, not comparison with the trade of other U.S. trade partners. This trade relationship, like the political relationship, is still young, and it started from virtually nothing half a decade ago. We must be realistic about U.S.-China trade, recognizing that the opportunities it presents are not utterly unlimited, recognizing that our two economies are not always perfectly complementary, recognizing that the structure of our corporations and financial institutions does not always permit us to seize opportunities that entities in other economic and political systems might be able to enjoy. And we must never forget that the trade relations of the United States and China are constructed on a foundation of government-to-government relations, particularly on the framework erected since 1979. Nevertheless, with all those caveats, in our view the most fruitful standard against which to measure our trade relations with the People's Republic of China is that of the trade's own progress since the early (and especially, the late) 1970's, rather than a rude comparison with our nation's established trade with older trade partners.

Thank you for the opportunity to discuss with you our experience in the State of Washington. We believe that Washington State shares much in this regard with the other States of the coastal and inland West, even while our geographic and economic conditions vary widely We in Washington State have much to learn from our colleagues across the country, and I hope that our discussion today will help our Council to increase Washington State's effectiveness in conducting its relations with China.

EXHIBIT F

BOGLE & GATES,
Seattle, WA, June 21, 1984.

Mr. FRANK C. PARTIN,
John Fluke Manufacturing Co., Inc.,
Everett, WA.

DEAR FRANK: Pursuant to your request, I will attempt to summarize the introduction of the John Fluke Manufacturing Company at the World Trade Club Trader of the Year Award Banquet. Of course, you may utilize such information for your company's publicity purposes, and may quote me if you desire.

"The Trader of the Year Award is the World Trade Club's most important award. In the past, it has been awarded to outstanding individuals from the public and private sectors who have provided leadership in the international area and to companies who have shown outstanding growth, innovation and performance in international trade. For example, Governor Spellman was last year's recipient."

"This year, we involved all members of the World Trade Club in the selection of the Trader of the Year. Accordingly, we wrote a letter to all individual and corporate members asking them to submit nominations to the Nomination Committee. Following receipt of numerous suggestions, it was determined by the Committee that we should focus on the region's high technology industry, which has performed well during the past few years, despite continued recessions in many markets, tariff and non-tariff barriers, and record-high U.S. dollar valuations."

"Following this decision, we collected a list of approximately 10 finalists from various sources. All were high technology companies involved in international trade."

"The Nominating Committee then sought professional assistance. We believed that the credibility of the Award would be in jeopardy unless we had detailed information relating to each companies' international activities upon which to make our decision. Accordingly, we asked securities analysts from Dain, Bosworth and Boettcher & Company to meet with us to educate the Committee. Our session with the analysts proved to be extremely interesting and informative."

"Following the meeting with the securities analysts, the Nominating Committee unanimously selected John Fluke Manufacturing Company, Inc. as its 1984 Trader of the Year. The analysts outlined the remarkable growth of Fluke's international market in recent years, despite recessions, trade barriers, and record-high U.S. dollar values as related to currency transactions in targeted markets. The analysts discussed the research and development programs conducted by Fluke which allowed it to develop technology which could be produced in the United States and compete successfully in difficult Asian markets such as Japan. One such product was the new 70-series Multimeters currently manufactured in Everett, Washington. The analysts also emphasized Fluke's excellent performance in new markets such as China. Additionally, the experts believed that the international marketing group assembled by Fluke, and the company's product innovation should ensure continued growth in international sales."

"Following our review of the nominated companies, our choice was comparatively easy. While a number of other local high technology companies showed excellent growth in the international area, Fluke's outstanding performance in international trade caused the members of our committee to unanimously select John Fluke Mfg. Co., Inc. as the Trader of the Year for 1984. The World Trade Club makes this award as a tribute to Fluke, its management and employees who have made its international operations so successful. This award is also given in tribute to the high technology industry's contribution to international trade in the region."

Frank, the remainder of my introduction focused on information which was given to me by your company relating to the history of the company's growth in the international area. Also, I gave a brief introduction of John M. Fluke, Jr. We greatly appreciated his participation at the award's dinner and enjoyed his excellent speech on international trade.

Incidentally, I have confirmed that your company, as Trader of the Year for 1984, will be given an honorary seat on our Board of Directors. The World Trade Club would request that the company place one of their prominent international experts on our Board. The company will also be given an honorary corporate membership for the year of 1984-1985.

If you should need any further information relating to my introduction, I would be very happy to supply it.

With best regards, I remain,

Very truly yours,

ARDEN C. MCCLELLAND,
Bogle & Gates.

SECTION III—CASE HISTORIES

A. DIGITAL MULTIMETER PROJECT—PEOPLE'S REPUBLIC OF CHINA

On September 26, 1982, the John Fluke Mfg. Co., Inc. signed a contract with the China Electronics Import and Export Corporation in Beijing, China, calling for the assembly of Fluke Model 8520A Digital Multimeters (DMM) in the PRC by the Beijing Radio Research Institute (BRRI). This contract, valued in excess of $900,000, was the first step in what we hope is a long term commercial relationship with the Chinese and was the culmination of an intense five year market development effort by the Fluke Company against fierce foreign competition.

Under this contractual agreement, BRRI will assemble the 8520A DMM's from kits. These instruments are system multimeters incorporating ten year old technology that is now two generations removed from state-of-the-art instrumentation. These meters are best suited for a production test environment rather than an engineering or design application.

Because of export licensing delays experienced for this project, the Fluke Company faced not only possible cancellation of the order due to having missed contractual obligations but also the severe financial hardship of holding unshippable kit and assembly equipment inventory.

The following narrative is meant to illustrate the byzantine handling this case has been subjected to and the enormous amount of time, energy and money expended by the Fluke Company to secure U.S. government approval of this project.

Because the BRRI agreement involved the assembly of instruments, it was not a routine export license case. Thus the Fluke Company spent substantial time consulting with the Department of Commerce throughout the fall of 1981 on the proper format and content of the application. Approximately three man months were expended preparing a 200 page technical presentation on exactly what was involved in the assembly process and what level of technology transfer would occur.

In early January 1982, the application was personally submitted to the Department of Commerce in Washington, D.C. by the Fluke V.P. of International Operations.

The application was returned to Fluke without action in early February, requesting that it be resubmitted in a different format. This came in the face of four months of effort preparing the case per Department of Commerce instructions.

The application was altered and resubmitted immediately. During March, April, and May, Department of Commerce personnel were contacted weekly to determine the status of the application only to learn it was still "under review."

When the application was re-submitted in February, it was determined that the Department of Defense would also review the case. Under the Export Administration Regulations, applications to be reviewed by other agencies must be forwarded to them by Commerce within 30 days from submission. Under law, the Defense Department should have received the application by the end of March.

Two months later, in early June, after repeated calls from Fluke management inquiring about the case status, the President of the Company contacted the Departments of Commerce and Defense. We discovered at this time, contrary to several Commerce Department claims, that the complete case file was in fact never sent to the Pentagon. The only information Defense had received was a two page cover letter from Fluke's Vice President of International Operations summarizing the case coupled with the D.O.C.'s assessment of the project.

The Department of Defense received the case's technical support documentation only after an attorney retained by the Fluke Company hand-delivered another set.

During June and July, the application was supposed to have been considered at various Inter-Agency meetings. However, it was not until August 2 that the application was finally approved by the Departments of Commerce and Defense. This was sixty days beyond the maximum time set forth for consideration in the regulations.

When the application was initially submitted, some eight months earlier, it was determined that after the U.S. government approved the license application, it would then be reviewed by COCOM, a Paris based security organization composed of the NATO countries and Japan. Because we were behind on the contractually stipulated shipping deadline, the Fluke Company requested the Departments of Commerce and State to expedite the COCOM review via the "urgency proceedings" process.

However, ten days elapsed before the State Department telexed a three page case summary to the U.S. delegate to COCOM in Paris.

On August 12, in one of the numerous telephone conversations with the U.S. delegate in Paris, we learned he could not put our case on the COCOM agenda until he received back-up technical information from Commerce.

Another week passed and the back-up information did not arrive. The Fluke Company sent additional copies of the technical data via air courier directly to the U.S. delegate in Paris.

The application was finally placed on the COCOM agenda for August 31; nearly a month after we formally requested the Departments of Commerce and State to "expedite" the COCOM review. The U.S. Delegate to COCOM, Mr. James LeDesma, informed us that under the "urgency procedure," the COCOM countries have only one week, instead of the standard two weeks, to evaluate the case.

However, when we telephoned Mr. LeDesma on September 1, he informed us that five countries had requested another week for review. He said that no technical questions had been raised by that time. The application was placed on the agenda for the next COCOM meeting on September 7.

Mr. Ledesma was telephoned again on September 8. He said that the same five countries that had requested more time last week, had again requested another week's extension. Mr. LeDesma said he was not allowed to tell us which five countries had requested additional time. He stated that he did not know why they needed more time, adding that this case was relatively "new" on the COCOM agenda. He said "eventually" the other delegations would be asked why he requested more time but did not commit as to when that would be done. No technical questions had been raised at the September 7 meeting, according to Mr. LeDesma.

After reiterating our concern that the contract could be cancelled by the customer should we fail to meet our September 24 shipping deadline, we asked Mr. LeDesma when he thought the application would be approved and if there was some influence we could exert to have when the application would be approved, and at that point, there was nothing we could do except to wait for technical questions to be raised.

On September 15, Mr. LeDesma was contacted again. He said that of the five countries, three had approved the case, but two countries had raised a technical question. They wanted to know what type or types of software would be provided. LeDesma said that the response would have to go back through the State Department Office of East-West Trade in Washington, D.C. The following day the answer to the question was read over the phone to an individual at the State Department. Two days later the same information was telexed to Mr. LeDesma through the Commerical Section of the U.S. Embassy in Paris by the Fluke Company.

Despite the fact that Mr. LeDesma had the information two days after the question was raised, he did not give it to the two countries for nearly two weeks because he did not have all the "authorizations" from Commerce and State Department officials that our answer was in fact a "valid" one. During this two week period, the Fluke Company called Washington D.C. daily in an effort to get the needed authorizations. Each day there seemed to be a new excuse; the person who could issue the authorization was sick of traveling or was in a meeting.

On September 29, Mr. LeDesma said that he had received all the authorizations and the case was on the agenda again for October 12th. He stated that under COCOM rules, the countries had two weeks to evaluate the response. Mr. LeDesma was contacted on October 12 and said that the case was scheduled for October 14. He denied having said earlier it was on the October 12 agenda.

Mr. LeDesma was contacted again on October 14. He said that one country had approved the case but the other country asked for another week for review. The U.S. delegate to COCOM was contacted again on October 21 to learn that the case had finally been approved. It had taken nearly three months from the time the case was approved by the Commerce and Defense Departments until COCOM had completed its review.

Because of contractual problems, the Commerce Department was requested to expedite the processing of the application once it was approved by COCOM. However, it was not until two weeks later, on November 5th, that the technical data license was validated. It was still another week, on November 12, before the license for the instrument kits was validated. In other words, it took three weeks to expedite simply the validation of the licenses despite countless telephone calls by the Fluke Company and the Seattle District Office of the Commerce Department.

On November 16, the technicians from Beijing Radio Research Institute finally arrived in Seattle to begin the assembly training. This was nearly fourteen months after they had signed the contract with the Fluke Company.

B. LOST BUSINESS DUE TO U.S. UNILATERAL EXPORT CONTROLS

Contract for a circuit board tester lost to an Italian Company because of U.S. unilateral export controls. Contract value—$106,000. Export license application #A603229.

Application submitted January 29, 1982.

Application "returned without action" three months later requesting more information on the "computer system parameters."

This circuit board tester was classified under export commodity control number 4529B, a U.S. unilateral control. Many Concom countries do not require companies to file export license applications for equivalent equipment.

On July 31, the Commerce Department issued the export license. The following week the Commerce Department called asking that the license be returned as "all the reviews" had not been completed. The Defense Department had requested to review the application. The Commerce Department was asked to expedite the review as the customer had threatened to cancel the contract unless delivery was made soon.

Despite numerous phone calls to Commerce and several unkept promises to follow-up, the application did not leave the Commerce Department for another six weeks.

Throughout September, the Defense Department was urged to expedite the application review because of continuing threats that the contract would be cancelled and the order would be filled by an Italian company. Defense officials admitted they did not fully understand the equipment but continued their review for possible military applications.

On October 15, representatives of the Fluke Company's East European sales representative visited the Department of Defense in Washington, D.C. Despite all the previous phone calls, Defense officials still had not completed their review and acted as though they were unfamiliar with the case.

At this meeting, Defense officials were reminded that the contract would go to an Italian company if a decision was not made within the week. The Defense Department thought this was "unfortunate" and suggested we request the State Department file a protest with the Italian government for allowing the export of a similar instrument.

This suggestion made little sense as only the United States is preventing the export of this type of equipment.

On October 28, the Defense Department informed us the application would be denied for "national security reasons."

The United States' unilateral control of this type of equipment is only guaranteeing sales for our European and Japanese competitors and is not restricting the export of technology to East Bloc countries.

Chairman GIBBONS. Thank you, Mr. Fluke, for your interesting testimony.

Mr. Bonker tells me he has to preside at another meeting. Before we go to the other witnesses—Mr. Bonker?

Mr. BONKER. Thank you, Mr. Chairman. I regretfully have to depart. I have another meeting that involves an upcoming Interamerican Housing Conference here in Seattle, which has a lot to do with opening up new markets in Latin America for housing and thus the export of wood products.

This is a steering committee. I am sorry that conflicts with this hearing. I would like to say with respect to John Fluke's testimony that what he has to say and the case studies that he has included certainly underscore the problems associated with our export control program, and why the conference now deliberating the Export Administration Act is so vital to the high technology industry.

This is the one industry where America is competitive, where we do have a dominant position, but we risk losing that position if we maintain these unilateral controls and unnecessary delays and restrictions on our exporters.

So what you have to say here, John, is terribly relevant to my work.

Mr. Chairman, I would ask unanimous consent that the case studies and the other material provided become part of the record.

Chairman GIBBONS. Without objection. They are very good.

Mr. BONKER. The chairman has been supportive of our efforts in conference. While the Ways and Means Committee becomes involved only on the matter of import controls, he and his colleague, Bill Frenzel, have been very influential in trying to push that act toward a more responsive export control policy.

Finally—and perhaps the chairman will want to comment on Operation Exodus—Dick Ford, I think, could also attest to a related subject. While the Customs Service is attempting to scale down traditional services that have been performed at the airports and other places, it is trying to divert its resources and buildup its capability on this investigative cops and robbers adventure with respect to technology.

In other words, I think it is abandoning some of its traditional statutorily mandated responsibilities, and is now trying to get a slice of the enforcement responsibility of the Export Administration Act. And that has been a very seriously contested issue in the conference.

We want to make sure the Department of Commerce has the resources to do a good enforcement job, and try to keep DOD insofar as possible out of the review authority when it comes to West-West trade, and to greatly limit the Customs Service in this area.

They are not needed. They certainly are not wanted. And they have enough jobs to do in the other responsibilities, Mr. Chairman, that you have given them.

Finally, I want to thank you once again, Chairman Gibbons, Mr. Long, Mr. Pease, for coming all the way to the Northwest and hearing first hand the problems we have with trade, and also the great opportunities that exist in the future of this area.

Mr. FLUKE. Mr. Chairman, with respect to the position I am presenting here, I should mention this is of general interest to the entire electronics industry, not just our segment.

Second, I think that it is really impossible to intelligently address the issues surrounding export trade specifically without also looking at its consequences to our mature industries.

Fluke, like other electronics companies, is fortunate to be standing in the right place at the right time. That does not mean we are unsympathetic to the guy in Muncie, IN, that operates a milling machine to make patterns for casting transmissions and now he is out of work.

To expect to rip that guy out by the roots and drag him to Phoenix and retrain him for a job that pays half as much is a little unrealistic.

This is a very complicated and difficult problem. And I think part of the problem rests at the doorstep of American business management. It is critical we pay more attention to our most valuable asset in our companies, which is our people.

The process of retraining those people is an ongoing process of being in business. We are very fortunate at Fluke Manufacturing to have what we refer to as a 20-year club—people with the company 20 years or longer. We are pleased some people in the 1950's who were putting tube sockets in metal chassis and doing point-to-point wiring are now today working in our silicon wafer fabrication facility.

We have paid a lot of attention to retraining. It really pays off. We heard testimony here about some smaller mills that spent a lot of money on automation. Automation is wonderful.

But it is darned hard to replace the intelligence of a well-trained person. Furthermore, I think we have got to regard people as a fixed cost in our business.

You cannot hire them now and 6 months later expect to throw them in a ditch. That is just unacceptable. Sometimes it happens. But we have to work on both sides of this problem. Thank you.

Chairman GIBBONS. You have Mr. Pease standing up waving.

Mr. PEASE. Mr. Fluke, I would like to submit your name for the presidency of the National Association of Manufacturers at their next meeting. I will be your campaign manager.

Chairman GIBBONS. Yes. There is much truth in what you say. Let's go now to Mr. Glant.

STATEMENT OF DOUG GLANT, PRESIDENT, PACIFIC IRON & METAL

Mr. GLANT. I think it is appropriate that my colleague and friend, Don Bonker—who has heard this particular song a few times—Don could almost recite my testimony by heart—is heading out the door.

For the sake of brevity, I am going to jump around a little bit and cut out some of the remarks I had intended to make because they have been covered previously.

My name is Douglas Glant. I am president of the Glant Pacific Cos. I am also vice chairman of the Washington State Export Council.

I am a member of the President's Export Council and I serve on two committees—Export Administration Act and Incentives-Disincentives. I head the Subcommittee on Antiboycott. I am deputy chairman of the DISC-FSC Subcommittee.

I expect my remarks will be somewhat contrary both to my nature and to the fact that I am a member of the small, mid-sized business community.

We are in the commodity business, so we go up and down. We do somewhere between $20 and $30 million in annual volume, and employ from 300 to 400 people depending on the state of the industry.

One of our companies, Pacific Iron & Metal, is a seller of nonferrous scrap metal, copper, aluminum, gold and silver. We sell to domestic and overseas consumers.

Our textile companies buy most of their cloth from domestic sources and some from abroad. Countries we deal with include Taiwan, People's Republic of China, India, South Korea, Japan, Italy, Sweden, Finland, and West Germany.

I feel a little bit like Nero sitting here talking about trade issues with what is happening to the metal markets today, last week, and for the last 6 to 12 months. But Nero or not, I appreciate this opportunity.

Our metal company right now is going through a very difficult period, primarily due to international conditions exacerbated by domestic policy. And I would like to give a few particulars.

For over 20 years—in my opinion—this country has had a disjointed and myopic trade policy, if, in fact, we have had a policy at all. For me the two most frightening, discouraging current issues are the crushing Federal deficit—and yes, Congressman Lowry, I feel that it definitely has an impact—with its attendant high interest rates and strong dollar, and the equally ominous move toward protectionism here and abroad.

A recent ITC decision—and it was a 5-to-0 vote—has recommended relief for the copper industry. Though such help will probably benefit my company, and we need it, I am not enthusiastic.

LDC's, including my copper exporting competitors, Africa, Latin America, must have a market for their products. A Smoot-Hawley mentality would, in my opinion, put the United States in a position of its having to bale those countries out with aid, financial and/or military, or watch them slide toward default and/or revolution.

Additionally, as Washington State knows full well, there is the danger of retaliation, and we want these countries to be able to buy our products.

Quotas should be anathema and tariffs used only as a last resort, and temporary at that. For copper, better would be to stop loaning money to open new capacity, especially since the interest, let alone the principal, is unlikely to be repaid in my children's lifetime.

I know we have only limited control over the billions we pour into the IMF, the Interamerican Development Bank and the World Bank. But I hope and think it is time that Congress insisted on more control over those U.S. dollars that go into those various international lending agencies.

Should any relief be granted to copper, and I could argue that copper deserves relief, if we had the time, I think Business Week had it right when they said "you are asking for import relief, and should it be granted you must agree that you will use the time and resources this relief will give you to modernize your industry, rationalize your excess, outdated capacity, and reduce your production costs so that you can compete with foreign producers more effectively in the future."

In short, you must give the American people some reason to believe that you will not be showing up in Washington, DC, a few years from now to ask for further protection. Perhaps the most seroius problem with import restrictions is that they treat the symptoms of America's economic ills without getting at the cause, high interest rates.

The best thing that Government could do today for U.S. industry, small industry in particular, because that is the part I can speak to, would be to slash the Federal Government deficit. If we get serious, as opposed to this year's piddling down payment, about massively reducing the deficit and back away from the abyss of protectionism, I think we will do just fine, and Karl Marx, who predicted that protection would help destroy capitalism, would be wrong once again.

Otherwise, big business will do more manufacturing abroad and small companies like mine will go under, with in both cases a crushing impact on jobs and tax base.

I thank you for your time and patience.

Chairman GIBBONS. Thank you.

Let's go now to Mr. Ford. We will put your full statement in the record.

STATEMENT OF RICHARD D. FORD, EXECUTIVE DIRECTOR, PORT OF SEATTLE

Mr. FORD. One point I would like to make—I think the committee might think John Fluke and I got together on our statements.

I am Dick Ford, executive director of the Port of Seattle. Our port, in addition to operating the major marine facilities here in Seattle, is also the operator of Seattle/Tacoma International Airport. And I had some remarks today about an export industry that perhaps we don't always think about, and that is international tourism.

In my written remarks, you will see that I suggest that perhaps a national policy on international tourism is needed, where we pull together all of the facets, many of which are already under the control of the Federal Government, Customs, that is an issue we have appeared before the committee before, and I wish to thank the Members of Congress for the support they have given us.

If we had equal support out of the administration, we would have a pretty good show going. But as the numbers show here, last year we handled half a million international passengers through our air terminal.

That is up from about 360,000 back in 1977. But we have less customs agents today than we had back in 1977.

Chairman GIBBONS. If you don't mind me interrupting you—that is the most perplexing thing we have to face. It is a relatively small agency of the U.S. Government. We figured a couple of years ago if they just eliminated the overtime in the Customs budget that they would have to increase the size of their work force by a third, just to do that, just to get rid of the overtime.

Yet this current budget for the Customs Service is slashed again. There is no way that these people can handle the number of tourists and handle the number of products that come through the airports and the wharfs that have gone up tenfold in 10 years with the personnel they have.

And now they are running off into Operation Exodus to harrass other people. Yes, your criticism is well taken.

I just want to emphasize that the Customs Service and the administration is not using that resource wisely.

Mr. FORD. Let me say this, too, Mr. Chairman. At least, speaking for our port and our part of the industry, and it goes to Mr. Lowry's favorite subject of the morning, the deficit, I think the industry would be prepared to pay something additional for the service. A small fee is assessed now on international tickets. If that fee has to be more, so be it.

We recognize we don't have a bottomless pit here, but it seems to me if it is strictly an issue of money, if that is the only issue, that can be dealt with, and not add to the problem that creates a lot of other export difficulties for us.

Chairman GIBBONS. You know, it is not really money, Mr. Ford. The Customs Service collects about $10 billion a year in revenue. They are picking up more money now even with the tariffs reduced than they did with the higher tariffs. And we don't know how much they are missing because frankly it is almost impossible for them to check all the shipments. We are relying upon the honor system to a great extent in Customs checking. And the honor system, where money is involved, doesn't usually work that well, unfortunately.

[The prepared statement follows:]

STATEMENT OF RICHARD D. FORD, EXECUTIVE DIRECTOR, PORT OF SEATTLE

I am Richard Ford, executive director of the Port of Seattle.

By way of introduction, the Port of Seattle owns and operates Seattle/Tacoma International Airport. One of the Nation's largest with more than 10 million passengers ticketed through the facility last year. Our airport is the Nation's ninth largest in terms of cargo handled. The port's marine-side facilities move almost one million containers a year, making it the largest container port on the west coast, both for imports and exports.

Seattle is a gateway port—especially between the U.S. and the Far East. About 80 percent of the cargo arriving here by ship is loaded on to railcars or trucks destined for inland markets in the Midwest and East. Four major airlines serve the Far East via Seattle with 29 flights each week. Far East international passenger traffic is up over 75 percent so far this year compared to last.

Seattle's dominance as a gateway to the U.S. is due, in part, to our geographic location, more than a day closer by water to the Far East manufacturing centers than any other major west coast port. We're also closer, by the same token, by air. And we are aided by a natural deep water port, excellent harbor and airport facilities, and mainline truck and rail service to the Midwest and East.

You've already heard about the importance of international trade, both imports and exports, to the Pacific Northwest. I would only add that our economic studies show that about 120,000 workers in this State owe their jobs, directly or indirectly, to international trade.

I'd like to give you a brief picture of what we see happening in international trade and then talk a little about international tourism.

The economic revolution that is taking place in the Far East today is going to have far-reaching effects on how the world does business. It will have an even greater impact on the west coast of the U.S.

Since 1980, when more cargo crossed the Pacific than the Atlantic for the first time in history. The value gap has grown by more than $20 billion and is increasing rapidly each year.

We believe this trend will continue for many, many years. The Far East will expand and grow as a world manufacturing center and trade across the Pacific will parallel that growth.

That should not be a rallying cry for legislative protection of U.S. interests. Sure, we have to insist on fair competition. And we have to protect the rights of U.S. companies from those who would pirate away their technological advantage. But even more important we must prepare and adjust to new economic realities.

I do not believe that our current trade imbalance is irreversible or that American products cannot compete. We can compete, but it must be in areas where we are strong and can expect to stay strong. U.S. exports of agricultural products, tourism, high technology and services will expand. And while the volume of cargo imported will always outweight the volume exported the dollar value should balance or be in our favor.

What we must not do is injure our strong industries in an effort to protect weak industries. I am sure it sounds like a broken record but the strong dollar is at the center of our current export problems. Until we deal with this central issue there is little hope that other programs can be of much help.

Increased trade across the Pacific offers many economic benefits to this region as well as to other parts of the country. But we must be ready. We need more than just modern facilities, we need a regional and national policy that makes it possible for us to take full advantage of the opportunities.

Let me give you an example. At the airport, we are engaged, it seems, in an annual battle to get adequate staffing of the U.S. Customs Service. The Congress, and this subcommittee, have been helpful. But even though new positions are approved and money is appropriated, the new inspectors somehow are never hired.

We cannot be successful in our efforts to promote the airport and international tourism as an export industry in the absence of Good Customs Service.

At Sea-Tac last year Customs cleared nearly 500,000 arriving passengers, an increase of more than 12 percent over 1982. Customs did the job with only 34 full-time journeymen inspectors—an actual decrease of one position since 1977 when only 340,000 passengers arrived at the airport.

To its credit, Customs has streamlined its procedures and initiated new programs to move passengers faster. But new programs and procedures take time to test and implement. And there are limits to what can be accomplished in the name of efficiency.

At the port of Seattle, we are moving quickly to capture a larger share of the international tourism market—especially in Japan when four million people venture overseas each year. By the end of next year we will have completed a three-year $18 million program to expand and improve the international arrival area at Sea-Tac.

And we are spending $200,000 this year to begin a five-year direct tourism promotion campaign in Japan.

To make this effort succeed, and to respond to what is happening in international travel, we need the active involvement and support of other segments of the community, including the Federal Government.

What is clearly needed is a national policy on international tourism to guide Federal agencies and to give leadership to private industry. It's the only way we can all pull in the same direction and take advantage of the economic benefits international tourism offers.

International tourism is already the Nation's fourth largest export industry, improving our balance of trade by more than $11 billion. To the extent that border management policies or other Government regulations make it difficult or unreasonable for foreign visitors to visit, we are limiting the growth of that industry to our own economic detriment.

International tourism should be viewed as a tool of economic development. Congress should establish a national policy on international tourism to address everything—from Customs, immigration, airport development programs. International airline agreements, education and training, and on down the list. I mention education, a traditional area of Government concern, because we need more bilingual citizens and that will require sustained financial support of our schools and colleges over a long period of time.

Congress should set funding priorities in other areas as well so that there is steady, solid support for the kind of promotion necessary to attract visitors.

Finally, let me say I appreciate this subcommittee's interest and thank you for coming to Seattle for this hearing. I also want to thank members of our own delegation who are here and who have been so helpful.

Thank you.

Chairman GIBBONS. Mr. Long.

Mr. LONG. All three of you gentlemen have made a real contribution. I think it well rounded out what we are discussing here today. I am very appreciative.

Chairman GIBBONS. Mr. Lowry.

Mr. LOWRY. Mr. Chairman, I just want to thank the panel. I have heard exactly the same presentation from each of them numerous times. We are very proud of our industry and businesses here in the State of Washington.

Thank you very much.

Chairman GIBBONS. Don.

Mr. PEASE. Mr. Chairman, I would like to commend all three of the witnesses. I think they have given excellent testimony. I don't mind at all if you have gotten together or if you have been giving the same message. I think the message is certainly justified.

I don't want to beat the same horse that Mike Lowry has been beating all morning long, but I would like to assure you there are a lot of people in Congress who are very concerned about Federal deficits and who do see the relationship between deficits and high interest rates and a strong dollar and everything else that besets us, and who would agree with you, Mr. Glant, that what we did a week ago by way of a tax bill was a pitifully small downpayment on the Federal deficit that is going to approach $600 billion to $700 billion in the next 3 years.

I am not sure I know what the solution is. But I hope the people who have the most influence over President Reagan, who are not Democrats like Mike Lowry and myself, would try to convince him that it is necessary to try to do something about it.

I was going to quote some figures earlier which I think are really instructive.

The witness, Mr. Myhr, from Weyerhaeuser, said we need to cut back on Federal expenditures, and we do. That is certainly one aspect of the deficit. Raising revenues is another. Any businessman knows if you are not making money, you can make a profit in one of two ways—cut your expenses or increase your revenue or both.

But in the last 3 years, including this year, defense spending will have gone up by 55 percent over the 3 years. Interest on the national debt will have gone up by 60 percent in 5 years. Entitlements, Social Security, and Medicare and so on will have gone up by 29 percent. And nonentitlement domestic spending, for things like the Customs Service, will have gone up about 8 percent. Actually in the first 2 years of President Reagan's administration, spending for that sort of activity went down by 2 percent. So it seems to me that when we look to reducing deficits, we have to look to the items that are causing the deficits.

We spent a week before we recessed last week arguing with the Senate, which won't even discuss compromising with the House on defense spending. At the direction of the administration, they won't compromise an iota.

Well, I am on my soapbox. I am sorry.

Mr. GLANT. May I respond to that as a businessman, not as a partisan of either party.

I sat with a couple of Members of the Senate last night and had a similar discussion. Frankly, for a lot of the small business community, the philosophical debate is frustrating. I think everybody is in agreement about the deficit at this point, although I battled with some folks in the sixties and seventies in both parties who did not feel the deficits or the budget really was a particularly critical issue. I think there is agreement now. So the argument now seems to be—and Mike and I have discussed it—is where do you raise taxes and/or where do you cut spending. And there is a legitimate argument to be made by adherents on both side of those issues.

What the small business community, I think, can no longer afford—or certain of us—is this debate being interminable.

If we had the time, and we don't, I could argue that both the Congress, including the Senate, which is Republican, and the House, which is Democrat, and the administration have in some respects failed the public's faith and willingness to absorb pain.

Again, I don't want to blame Ronald Reagan or Tip O'Neill or Howard Baker. For my company and my employees, all of whom are the kinds of people everyone worries about—they are basically entry-level labor, we pay them a good wage, most of them make $8, $10, $12 an hour. That is not the same as a steelworker perhaps. I hire ethnic minorities. We have a lot of people who came here after World War II who were functionally and in other respects illiterate. They have health and welfare and pensions. We don't have profit sharing because we are not making money. We would like to.

But my folks and I cannot wait while the philosophical debate about where the cuts are to be made and where the taxes are to be raised goes on interminably. I would agree with Congressman Lowry, and I have publicly, though I believe in strong national security. I am that kind of Scoop Jackson Republican. I deal with defense contractors. I think the small businessman could manage that whole defense establishment so much better without changing Davis-Bacon—and I think FitzGerald should be listened to.

That is not to say get rid of the MX's, hard silos, or soft. I don't know about those things. I do know, though, that virtually everything that I have dealt with in the public sector could be better managed; maybe not the way you can in the private sector but a lot better than it is now. And we don't have the luxury, those of us in industries like the ones in the State of Ohio, and Michigan, and the metal business all over the country, to wait. Perhaps it is too late for some of us, but for my kids' generation, I hope you stop debating the philosophical part of it and get to cutting, and raising taxes where that should be done.

Mr. PEASE. Thank you very much.

I entirely agree with you. The job of managers is to manage. The job of legislators is to legislate, and I don't think it is a good excuse for us to say we cannot agree philosophically. That is why votes are held, and we ought to have votes and see who wins and who loses and come to a conclusion.

Mr. Chairman, just to finish off. In addition to nominating Mr. Fluke as president of the NAM, I want to nominate Mr. Glant as Defense Department Secretary.

Chairman **Gibbons**. Mr. Glant, we can move fast, but it does require cooperation.

I don't want to philosophize here, but when America was founded, our Founding Fathers had a great distrust of power. And in the Constitution they so diffused power in the United States that we will constantly be haunted with that one single idea.

Now, in the silence of my lonely room, sometimes I try to tell myself how powerful I am supposed to be, and I realize I am just talking to the walls. There are other powerful people, very powerful people, here. But when this wonderful government of ours has power so widely dispersed, none of us can work unless we can work out a consensus.

Now, that has its disadvantages, which I have just outlined, but it also has advantages. As we move slowly, we have a self-correcting system within our guidance system. And we don't go so far off target that we cannot recover. I am not advocating that we change our form of government. I am just saying that it is for a very sophisticated people and very sophisticated society awfully frustrating every now and then to have to put up wth an interminable amount of delays that we have in making decisions.

There is lots of room for improvement and we should get about it as rapidly as we can.

I want to close this hearing now by saying, first of all, we appreciate the hospitality that has been offered to us here—this fine room, and people, and the press putting up with our long discussions. It has been eye opening to come here and learn more about the problems of this part of the United States, the point of view of this part of the United States. You have a wonderfully attractive area, obviously a very progressive area here. I am sorry it took me 641½ years to get here. I pledge to get back more often.

We are going to keep this hearing record open until July 31 of this year for anyone who would like to file a written statement with us, and for those who might want to make some corrections in the statements that have been given.

I want to thank all of our colleagues, particularly Mr. Lowry, Mr. Chandler, Mr. Bonker, Mr. Swift, and the members of the committee, and Mr. Long, who is a very powerful man in Washington, for coming and working on this today.

Mr. Long and I were talking. He said, "You know, there is so much to learn." We are committed to that process, to try to learn, but try to act also.

Mr. **Fluke**. Mr. Chairman, one last comment, sort of an obscure comment, but it was mentioned earlier. That is the issue of the R&D tax credit. Perhaps at least as important to us, maybe more important in the long run, although of less economic consequence, is a rather obscure piece of the IRS Code known as section 170 that enables companies to make gifts of equipment to universities for research and experimentation.

Chairman GIBBONS. Yes. We tried to improve that, too.

Mr. FLUKE. It is critical that not disappear and be improved if possible. We are eventually going to find ourselves in the business of exporting technology itself. And if we don't make provisions to manufacture it, we won't be able to do it, at least not safely.

Chairman GIBBONS. Yes, I agree. I am sorry in our session we could not get a consensus worked out on that. Perhaps we can do it earlier next year.

The hearing is adjourned.

[Whereupon, at 1 p.m., the hearing was adjourned.]

[Submission for the record follows:]

PACIFIC NORTHWEST STEEL FABRICATORS' ASSOCIATION,
Bellevue, WA, July 24, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR CONGRESSMAN: In response to some of the questions that arose during the reception at your recent hearings in Seattle, Washington on July 9, 1984, the Pacific Northwest Steel Fabricators Association would like to take this opportunity to present to yourself and the other members of the Committee some preliminary information to assist the Committee. PNSFA input may help to unravel the diverse and subtle complexities evolving around the issue of imported structural steel fabricated products.

PSNFA submits for your information the following information and short term suggestions for your consideration:

A. In response to the question of how the steel fabrication industry and the domestic steel produced industry have concurrent and similar concerns regarding the import of structural steel fabricated products the representatives of PSNFA outlined to various Committee members how the antidumping provisions currently in force can be avoided through the importation of the finished fabricated product rather than the raw material.

The most recent case-in-point is the 15,000 tons of fabricated structural steel products currently being erected by the American Bridge Division of the United States Steel in the Columbia Center Building in Seattle, Washington. At the time of bid, domestic fabricators received erection bids (the asembly of the fabricated products at the building site) from the American Bridge Division of U.S. Steel. All domestic fabricators were assured that the price for erection services by American Bridge was the same price for erection that American Bridge was using in its overall bid for the fabrication and erection of the Columbia Center. This erection price was approximately $5 million.

The bids for the fabrication and erection of structural steel for the Columbia Center from domestic bidders ranged from $18 million to $20 million. American Bridge's bid for fabrication and erection was $13,200,000.00 using Korean fabricated steel pricing and American Bridge's erection price. Taking out the published erection price of American Bridge the difference between domestic fabrication prices and Korean fabrication prices was: Domestic low, $13,000,000.00; Korean low, $8,200,000.00; percentage fabrication price differential, 37%.

On a price-per-ton basis the breakdown of labor and material between domestic bidders and Korean bidders for the supply and fabrication of structural steel in the Columbia Center is as follows:

[Per tons]

	Domestic fabricators	Korean fabricators
Labor	$396	$296
Material	480	250
Total	876	546

It is obvious that the imported fabrication product enjoys a substantial reduction in cost due the lower labor rates paid by Korean fabricators. However, the most dramatic difference in pricing occurs in an area where both fabricators should, under normal circumstances, be paying approximately the same amount. That category is the cost of raw material. The Korean fabricators at the time of bid of the Columbia Center, enjoyed a world price for the procurement of wide flange shapes of approximately 12½¢ per pound. Domestic fabricators were required to pay the same foreign steel mill 24¢ per pound for the same steel. The reason in the disparity of prices of exactly the same products from exactly the same sources was the anti-dumping tariffs that prohibit the offshore supplier to sell steel to the domestic fabricator at world market prices.

Since the cost of raw material makes up approximately 50%-70% of the selling price of fabricated structural steel products, the difference between the costs of raw material to the offshore fabricator vs. the costs to the domestic fabricator has a significant impact on the total selling price of fabricated products by domestic fabricators. In the case-in-point, the Korean fabricators enjoyed an almost 50% discount in the cost of the raw material on this project. No remotely foreseeable increases in productivity or technological improvement by domestic fabricators could reasonably be expected to overcome the competitive advantage the offshore fabricator enjoys by being able to buy at the world market price for steel. In addition to the protective tariffs currently enforced on the import of raw steel products, the Korean fabricator also enjoyed a much lower cost of labor. Current data indicates the Korean fabricator pays approximately $2.40 per manhour as opposed to the $24.00 per manhour for domestic fabricators.

Although domestic fabrication labor is approximately ten times as expensive as the Korean fabricator's labor, American technological ingenuity has closed the labor cost gap, as evidenced by the pricing of the Columbia Center, to only a 25% disparity in labor costs. Had the Korean fabricator been required to pay the same price for the same products from the same mill as the domestic fabricator, domestic fabricators would have been "roughly in the ballpark" in obtaining an award of this major structural steel contract. Conversely, had the domestic fabricators enjoyed the opportunity to buy steel at the world market, the domestic fabricator would still have been "roughly in the ballpark" for the bid of fabricated steel products in the Columbia Center.

PSNFA feels strongly that the capability of domestic fabricators to improve their productivity and still maintain an American standard of living of its craftsmen is within near term grasp of the industry. However, the competitive disadvantage in raw material procurement is a hurdle that is well beyond the reach of any technological improvements in this industry and will shortly eliminate the capacity of domestic fabricators to maintain business operations. In addition to the loss of employment in the Seattle area due to the fabrication being done offshore, it is clearly evident that the protective tariffs currently in force *did not* assist domestic steel mills in obtaining the order for the raw material in the Columbia Center. Actually, the protective tariffs were conveniently avoided by the importation of the finished fabricated product rather than the raw material. In short, the tariffs imposed on raw material did not assist domestic steel mills nor domestic fabricators. Since the tariff itself does not run upwards through the construction cycle to include the finished product, neither domestic mills or fabricators gained the intended protection. PSNFA strongly suggests that the Committee should address the expansion of the anti-dumping "trigger price" to include finished fabricated structural steel products equal to the difference between the "trigger price" and the world price of steel.

B. As with all issues, other mechanisms affect a clear black or white analysis of the impact of foreign imported fabricated products. However, PNSFA submits to the Committee that employment data available from trade unions that supply labor to both fabrication plants and erection contractors will demonstrate a significant change in the ratio of field personnel to shop personnel. The impact of a sluggish and curtailed structural steel economy, high interest rates and other regional factors have depressed shop labor. However, despite a small recovery, shop manhours continue to decline. Preliminary information given to PNSFA shows that shop craftsmen's employment has declined more rapidly than overall construction labor. Therefore, PNSFA concludes that imported fabricated structural steel products has become a significant factor in the unemployment of domestic workers.

In addition to the above decrease in employment in structural steel fabrication shops, PSNFA also submits that employment of direct labor in domestic steel mills has also been adversely affected by the ability of offshore mills to supply products to offshore fabricators and thereby avoid anti-dumping restrictions. PNSFA can only submit an inference of this decline in employment in steel mill workers and requests the Committee to further question those sources be more closely attuned to the steel producers industry.

C. A preliminary survey taken at a random basis of steel fabrication companies in the Pacific Northwest has produced the following financial unemployment figures for consideration:

[Dollars in millions]

	Annual sales volume	Profit/loss	Net worth	Employment (average peak craftsman)
1980	$355.2	$14.4	$88.8	3.896
1981	337.5	4.0	93.6	3,976
1982	342.4	0	76.0	3,864
1983	232.8	(1.6)	64.8	2,208
1984 (estimate)	272.0	0	64.0	2,016
Increase/(decrease) percentage	(34)	(100)	(16)	(49)

Note.—The survey is a random sample of 74 questionnaires sent out to the structural steel fabrication industry in the Pacific Northwest. Due to the timeliness requirements of this preliminary report the first 8 companies responding were used to compile data. It is conservatively estimated that these 8 responses represent 14 percent of the total survey.

All compiled figures of the random sample were multiplied by a factor of 8.

Average years in business of the random sample equals 43 years per fabricator.

These preliminary figures indicate that despite the recent recovery in the economy and the increase in construction, the percentage share of the fabrication market for domestic fabricators in continuing to decline rather than increase. Furthermore, an erosion of the necessary capital base to provide structural steel fabrication capability in the domestic area is continuing to erode due to competitive pressures from offshore fabricators. It is also evident that increase in sales volume are not correspondingly being reflected in increases of employment levels due to substantial progress being made in the increased productivity of direct craft labor in structural steel fabrication industry.

D. In addition to the presentation to the Committee of alarming facts and figures, PNSFA also proposes to the Committee some short term and long term suggestions in a more positive vein in the hopes that solutions, as well as problems, can be identified in the analysis process. PNSFA suggests:

(1) A determination of the necessary domestic structural steel fabrication capability to maintain national defense include certain requirements to maintain domestic infrastructure. In this vein, the requirements of structural steel fabricated products for the oil, gas, and coal production industry; electrical generation industry (including nuclear, fossil fuel, and hydroelectric); maintenance of highway bridges; municipal, state, and government facilities; facility requirements of heavy industry required for national defense and other necessary infrastructural requirements to maintain defense independence from imported products be included as necessary for the national defense.

(2) A temporary tariff be imposed to allow some capital recovery by the domestic steel fabrication industry be imposed on finished fabricated products imported from offshore. PNSFA suggests that this tariff be pegged to the difference between the world price of steel and the trigger price. It is of interest to note that the world price of steel has risen dramatically since attention has been focused in the Congress on the issue of dumping. Since the world price of steel is somewhat politically controlled, a tariff that "floats" along with the trigger price would be an appropriate method to avoid fluctuation disparities that are out of the control of domestic resources.

(3) PNSFA, being on the Pacific Rim and the most easily accessible market place of imported structural steel products from offshore, suggests that regional import quotas, as well as national import quotas, be addressed by the Committee in order to maintain capacity in critical and selected regions of the domestic market. For example, prior to 1982 the Pacific Northwest was a primary source of structural steel fabricated products to the State of Alaska. It is conservatively estimated that in another two years the vast majority of steel fabricated products destined for the State of Alaska will be imported from Pacific Rim countries other than the lower 48 fabricators.

(4) It is suggested that subsidiary and collateral members of the metal working industry be surveyed for additional data and examples of additional impact in order for the Committee to determine the full range of the influence of imported metal products from offshore. As a suggestion and certainly not as a complete list PNSFA suggests that the Committee requests input from the appropriate organizations that would have data on the following industries:

(a) Structural steel engineering and detailing service companies;

(b) Fabrication and welding equipment's supply and manufacturing organizations;

(c) Sandblasting, heat treating, stress relieving, and other subsidiary metal working industry associations;

(d) Finished machine job shop organizations;

(e) Trade unions including, but not limited to, the Iron Workers, Sheetmetal Workers, the Machinists and Aerospace Workers, and other craft unions involved in metal working;

(f) Fabrication companies involved in subassembly or manufacture of equipment or other proprietary products that are not necessarily oriented to the building trades or construction markets;

(g) National steel fabrication companies not necessarily associated with regional trade organizations that would have more complete data of the overall impact on the entire United States market on structural steel fabrication products. Such companies include, but are not limited to, Chicago Bridge & Iron Corp., Pittsburgh-Des Moines Corp., Dravo Corp., American Bridge Division of U.S. Steel, Herrick Steel Co., and other large national fabrication companies.

PNSFA hopes the preliminary and brief data presented above will assist the Committee in their current analysis of foreign trade impact on the United States domestic capabilities. We would appreciate being advised from time to time of the progress that the Committee is making in its analysis and will be glad to supply more complete and detailed figures to whomever you should so designate. In the interim, please accept our profound appreciation of your efforts to investigate and act upon the current dilemmas that are destroying our industry.

Sincerely yours,

GALEN NORQUIST,
President.

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